

S. C. R. No. 101  
 S. B. No. 81  
 S. B. No. 83  
 S. B. No. 429  
 S. B. No. 464  
 S. B. No. 471  
 S. B. No. 497  
 S. B. No. 505  
 S. B. No. 508  
 S. B. No. 516  
 S. B. No. 100

### SIXTY-SIXTH DAY

(Wednesday, May 19, 1965)

The Senate met at 10:00 o'clock a.m., pursuant to adjournment, and was called to order by the President.

The roll was called and the following Senators were present:

Aikin	Kazen
Bates	Kennard
Blanchard	Krueger
Calhoun	Moore
Cole	Parkhouse
Colson	Patman
Creighton	Ratliff
Crump	Reagan
Dies	Richter
Hall	Rogers
Hardeman	Schwartz
Harrington	Snelson
Hazlewood	Spears
Herring	Strong
Hightower	Word

Absent—Excused

Watson

A quorum was announced present.

Reverend W. H. Townsend, Chaplain, offered the invocation.

On motion of Senator Aikin, and by unanimous consent, the reading of the Journal of the proceedings of yesterday was dispensed with, and the Journal was approved.

### Leave of Absence

Senator Watson was granted leave of absence for today on account of important business on motion of Senator Dies.

### Senate Resolution 707

Senator Spears offered the following resolution:

Whereas, Edward Everett Cauthorne is the oldest alumnus of The University of Texas, graduating with a Bachelor of Science degree in 1891; and

Whereas, Mr. Cauthorne is celebrating his 103rd birthday on Thursday, May 20, with a festive party at his residence, the Neponsit Home for the Aged, operated by the New York City Department of Welfare; and

Whereas, Mr. Cauthorne has led a long and productive life, the early part of which was spent in Texas, where he was a cowboy and a school teacher; and

Whereas, The University of Texas Ex-Students' Association is honoring Mr. Cauthorne with gifts and salutations; and

Whereas, Governor John B. Connally and the Night Hawk restaurant are fulfilling Mr. Cauthorne's birthday wish for a Texas steak; and

Whereas, Mr. Cauthorne is also the oldest alumnus of Harvard University and the oldest retired school teacher in the United States; and now therefore, be it

Resolved, By the Senate of the State of Texas that the respect, admiration and best wishes of this body be extended to Mr. Edward E. Cauthorne; and be it further

Resolved, That a page be set aside in the Senate Journal in tribute to him and that copies of this resolution be sent to Mr. Cauthorne with our warmest wishes for continued good health and many more happy birthdays.

SPEARS  
 KENNARD

The resolution was read and was adopted.

### Message from the Attorney General of Texas

The following message from the Attorney General of Texas was read and was referred to the Committee on Nominations:

Austin, Texas,  
 May 17, 1965.

To the Senate of the Fifty-Ninth Legislature:

I ask the advice, consent and confirmation of the Senate with respect to the following appointment: To be member of the Board for Lease of

State Park Land: Hill Baggett of Lubbock, Lubbock County.

Respectfully submitted,  
WAGGONER CARR,  
Attorney General of Texas

#### Reports of Standing Committees

Senator Reagan submitted the following report:

Austin, Texas,  
May 19, 1965.

Hon. Preston Smith, President of the Senate.

Sir: We, your Committee on Banking, to which was referred H. B. No. 196, have had the same under consideration, and I am instructed to report it back to the Senate with the recommendation that it do pass and be printed.

REAGAN, Chairman.

Senator Kazen submitted the following reports:

Austin, Texas,  
May 19, 1965.

Hon. Preston Smith, President of the Senate.

Sir: We, your Committee on Constitutional Amendments, to which was referred H. J. R. No. 81, have had the same under consideration, and I am instructed to report it back to the Senate with the recommendation that it do pass as amended and be printed.

KAZEN, Chairman.

Austin, Texas,  
May 19, 1965.

Hon. Preston Smith, President of the Senate.

Sir: We, your Committee on Constitutional Amendments, to which was referred S. J. R. No. 39, have had the same under consideration, and I am instructed to report it back to the Senate with the recommendation that it do pass and be printed.

KAZEN, Chairman.

Austin, Texas,  
May 19, 1965.

Hon. Preston Smith, President of the Senate.

Sir: We, your Committee on Constitutional Amendments, to which was referred H. J. R. No. 69, have had

the same under consideration, and I am instructed to report it back to the Senate with the recommendation that it do pass and be printed.

KAZEN, Chairman.

Austin, Texas,  
May 19, 1965.

Hon. Preston Smith, President of the Senate.

Sir: We, your Committee on Constitutional Amendments, to which was referred H. J. R. No. 21, have had the same under consideration, and I am instructed to report it back to the Senate with the recommendation that it do pass and be printed.

KAZEN, Chairman.

Austin, Texas,  
May 19, 1965.

Hon. Preston Smith, President of the Senate.

Sir: We, your Committee on Constitutional Amendments, to which was referred H. J. R. No. 51, have had the same under consideration, and I am instructed to report it back to the Senate with the recommendation that it do pass and be printed.

KAZEN, Chairman.

Senator Creighton submitted the following reports:

Austin, Texas,  
May 18, 1965.

Hon. Preston Smith, President of the Senate.

Sir: We, your Committee on Game and Fish, to which was referred H. B. No. 905, have had the same under consideration, and we are instructed to report it back to the Senate with the recommendation that it do pass and be printed.

CREIGHTON, Chairman.

Austin, Texas,  
May 18, 1965.

Hon. Preston Smith, President of the Senate.

Sir: We, your Committee on Game and Fish, to which was referred H. B. No. 650, have had the same under consideration, and we are instructed to report it back to the Senate with the recommendation that it do pass and be printed.

CREIGHTON, Chairman.

Senator Parkhouse submitted the following reports:

Austin, Texas,  
May 19, 1965.

Hon. Preston Smith, President of the Senate.

Sir: We, your Committee on Water and Conservation, to whom was referred H. B. No. 804, have had the same under consideration, and we are instructed to report it back to the Senate with the recommendation that it do pass and be printed.

PARKHOUSE, Chairman.

Austin, Texas,  
May 19, 1965.

Hon. Preston Smith, President of the Senate.

Sir: We, your Committee on Water and Conservation, to which was referred H. B. No. 979, have had the same under consideration, and we are instructed to report it back to the Senate with the recommendation that it do pass and be printed.

PARKHOUSE, Chairman.

Austin, Texas,  
May 19, 1965.

Hon. Preston Smith, President of the Senate.

Sir: We, your Committee on Water and Conservation, to which was referred H. B. No. 978, have had the same under consideration, and we are instructed to report it back to the Senate with the recommendation that it do pass and be printed.

PARKHOUSE, Chairman.

Austin, Texas,  
May 19, 1965.

Hon. Preston Smith, President of the Senate.

Sir: We, your Committee on Water and Conservation, to which was referred H. B. No. 977, have had the same under consideration, and we are instructed to report it back to the Senate with the recommendation that it do pass and be printed.

PARKHOUSE, Chairman.

Austin, Texas,  
May 19, 1965.

Hon. Preston Smith, President of the Senate.

Sir: We, your Committee on Water and Conservation, to which was referred H. B. No. 842, have had the same under consideration, and we are

instructed to report it back to the Senate with the recommendation that it do pass and be printed.

PARKHOUSE, Chairman.

Austin, Texas,  
May 19, 1965.

Hon. Preston Smith, President of the Senate.

Sir: We, your Committee on Water and Conservation, to which was referred H. B. No. 841, have had the same under consideration, and we are instructed to report it back to the Senate with the recommendation that it do pass and be printed.

PARKHOUSE, Chairman.

Senator Moore submitted the following report:

Austin, Texas,  
May 18, 1965.

Hon. Preston Smith, President of the Senate:

Sir: We, your Committee on Education, to which was referred H. B. No. 1123, have had the same under consideration, and we are instructed to report it back to the Senate with the recommendation that it do pass and be printed.

MOORE, Chairman.

Senator Ratliff submitted the following report:

Austin, Texas,  
May 17, 1965.

Hon. Preston Smith, President of the Senate.

Sir: We, your Committee on Counties, Cities and Towns, to which was referred H. B. No. 663, have had the same under consideration, and we are instructed to report it back to the Senate with the recommendation that it do pass and be printed.

RATLIFF, Chairman.

#### Senate Bill 574 on First Reading

Senator Word moved that Senate Rule 114 and Section 5 of Article III of the State Constitution be suspended to permit his introducing at this time, a bill, the provisions of which he explained.

The motion prevailed by the following vote:

Yeas—30

Aikin

Bates

Blanchard	Kennard
Calhoun	Krueger
Cole	Moore
Colson	Parkhouse
Creighton	Patman
Crump	Ratliff
Dies	Reagan
Hall	Richter
Hardeman	Rogers
Harrington	Schwartz
Hazlewood	Snelson
Herring	Spears
Hightower	Strong
Kazen	Word

Absent—Excused

Watson

The following bill was then introduced, read first time and referred to the Committee indicated:

By Senator Word:

S. B. No. 574, A bill to be entitled "An Act relating to granting prior service credit for certain employees under the Employees Retirement System of Texas; adding Subsection H to Section 4, Chapter 352, Acts of the 50th Legislature, 1947, as amended; and declaring an emergency."

To the Committee on Counties, Cities and Towns.

#### Senate Resolution 708

Senator Parkhouse offered the following resolution:

BE IT RESOLVED by the Senate of Texas, That the Senate Enrolling Clerk be directed to correct S. B. No. 102, Section 2, by changing the words and figures "Chapter 266, Section 6" to read: "Chapter 277, Section 6aa."

The resolution was read and was adopted.

#### Senate Resolution 709

Senator Krueger offered the following resolution:

Whereas, On July 21, 1965, Mrs. Mary Baca, Mrs. Sophie Hradecky, and Mrs. Ollie (Martha) Kopecky will lead a delegation of twelve tourists on a visit to Czechoslovakia; and

Whereas, These outstanding American citizens will visit with relatives throughout Czechoslovakia; and

Whereas, Mrs. Kopecky will visit the birthplace of her mother, Mrs.

Frank Dolezal, who will also make the trip, in Slovakia; and

Whereas, Mrs. Hradecky will visit in Brno, Capital of Moravia; and

Whereas, Mrs. Baca will return to her native Stary Hamry in Moravia, which she left with her parents at the age of two; and

Whereas, It is the desire of the Senate of the State of Texas to extend its best wishes to these fine ladies; now, therefore, be it

Resolved, That Mrs. Mary Baca, Mrs. Sophie Hradecky, and Mrs. Ollie (Martha) Kopecky be hereby designated as "Good Will Ambassadors of The Senate of The State of Texas"; and, be it further,

Resolved, That copies of this Resolution be sent to each of these ladies as tokens of our esteem and best wishes.

The resolution was read and was adopted.

#### House Bill 650 Ordered Not Printed

On motion of Senator Ratliff and by unanimous consent H. B. No. 650 was ordered not printed.

#### House Bill 905 Ordered Not Printed

On motion of Senator Richter and by unanimous consent H. B. No. 905 was ordered not printed.

#### House Bill 316 Re-referred

On motion of Senator Schwartz and by unanimous consent H. B. No. 316 was withdrawn from the Committee on State Affairs and re-referred to the Committee on Counties, Cities and Towns.

#### House Bill 118 on Second Reading

Senator Ratliff asked unanimous consent to suspend the regular order of business and take up H. B. No. 118 for consideration at this time.

There was objection.

Senator Ratliff then moved to suspend the regular order of business and take up H. B. No. 118 for consideration at this time.

The motion prevailed by the following vote:

Yeas—23

Aikin

Bates



Blanchard	Krueger
Calhoun	Moore
Cole	Parkhouse
Colson	Patman
Crump	Ratliff
Dies	Reagan
Hall	Schwartz
Hardeman	Snelson
Harrington	Strong
Hazlewood	Word
Kazen	

## Nays—5

Creighton	Richter
Herring	Spears
Kennard	

## Present—Not Voting

Rogers

## Absent

Hightower

## Absent—Excused

Watson

The President laid before the Senate on its second reading and passage to third reading:

H. B. No. 118, A bill to be entitled "An Act providing for an additional class of counties which may establish junior college districts; amending Section 17(a), Chapter 290, Acts of the 41st Legislature, Regular Session, 1929, as added; and declaring an emergency."

The bill was read the second time.

(Pending discussion of the bill, Senator Hardeman occupied the Chair.)

(President in the Chair.)

The bill was passed to third reading.

## Record of Votes

Senators Creighton, Dies, Moore, Richter, Spears, Herring, Strong and Kennard asked to be recorded as voting "Nay" on the passage of H. B. No. 118 to third reading.

### Motion to Place House Bill 118 on Third Reading

Senator Ratliff moved that the Constitutional Rule and Senate Rule 32 requiring bills to be read on three several days be suspended and that

H. B. No. 118 be placed on its third reading and final passage.

The motion was lost by the following vote (Not receiving four-fifths vote of the Members present):

## Yeas—23

Aikin	Kazen
Bates	Krueger
Blanchard	Moore
Calhoun	Parkhouse
Cole	Patman
Colson	Ratliff
Crump	Reagan
Hall	Rogers
Hardeman	Schwartz
Harrington	Snelson
Hazlewood	Word
Hightower	

## Nays—7

Creighton	Richter
Dies	Spears
Herring	Strong
Kennard	

## Absent—Excused

Watson

## Message from the House

Hall of the House of Representatives  
Austin, Texas,  
May 19, 1965.

Hon. Preston Smith, President of the Senate.

Sir: I am directed by the House to inform the Senate that the House has passed the following:

S. C. R. No. 103, In memory of State Senator Carl C. Hardin, Sr.

S. C. R. No. 6, Requesting the Texas Legislative Council to study plans for a program of assistance for municipalities in construction of arterial streets, etc.

S. C. R. No. 45, Granting permission to William L. Balliew, Jr. and W. L. Balliew, III, to sue the state etc.

S. C. R. No. 49, Granting permission to Joe B. Wright to bring suit against the State of Texas, etc.

S. C. R. No. 63, Granting permission to Amarillo Speed Bowl, Inc., to sue the State, etc.

S. C. R. No. 66, Granting permis-

sion to M & M Racing Association, Inc. and Speedarena, Inc. to sue the State of Texas, etc.

S. C. R. No. 75, Granting permission to John W. Marley & Associates Inc., to sue the state.

S. C. R. No. 79, Requesting the Texas Legislative Council to make a study of the present and future needs of the facilities for the care of delinquent and dependent and neglected children in Texas and to report to the 60th Legislature the results of its study and its recommendations.

S. B. No. 107, A bill to be entitled "An Act to establish and adopt a Code of Criminal Procedure for the State of Texas by revising and rearranging the statutes of this State which pertain to the trial of criminal cases; and by making various changes in, omissions from, and additions to such statutes; defining the meaning of certain words and terms used in the Code; and fixing the effective date of the Code; validating certain proceedings had under existing prior statutes; repealing statutes and all laws or parts of laws in conflict with the Code; containing a severability clause; and declaring an emergency."

(With amendments.)

H. B. No. 40, A bill to be entitled "An Act making findings and declaring policies relating to occupational safety; defining terms of this Act; providing duties of employers as to occupational safety; creating within the Bureau of Labor Statistics an Occupational Safety Board; authorizing said Board, after public hearing, to make and publish in occupational safety rules for places of employment; creating within the Bureau of Labor Statistics a Division of Occupational Safety; providing for the enforcement and administration of such rules by the Commissioner of the Bureau of Labor Statistics; providing for judicial review of such rules; providing penalties; providing for cooperation with the State Department of Health; providing separability; repealing conflicting laws; and declaring an emergency."

H. B. No. 103, A bill to be entitled "An Act providing for open court hearings and public records in cases involving juveniles charged with felonies; amending Sections 13 and 15, Chapter 204, Acts of the 49th

Legislature, 1943; and declaring an emergency."

H. B. No. 126, A bill to be entitled "An Act relating to the crime of shoplifting; amending Chapter 34, Acts of the 56th Legislature, Regular Session, 1959; and declaring an emergency."

H. B. No. 151, A bill to be entitled "An Act prohibiting purchases of alcoholic beverages for persons under 21 years of age; amending Subsection (14), Section 17, Article I, Texas Liquor Control Act, as amended; and declaring an emergency."

H. B. No. 154, A bill to be entitled "An Act permitting a person holding a valid license as an operator to drive certain commercial motor vehicles; amending Subsection 4a, Section 3, Chapter 173, Acts of the 47th Legislature, Regular Session, 1941, as amended; and declaring an emergency."

H. B. No. 164, A bill to be entitled "An Act amending Section 1, Chapter 128, Acts of the 44th Legislature, Regular Session, 1935, as amended, to provide that the collection of ad valorem taxes due for any year prior to the year 1945 is forever barred; and declaring an emergency."

H. B. No. 167, A bill to be entitled "An Act defining and regulating the business of giving bail in criminal and quasi-criminal cases, actions or proceedings; providing for the licensing of persons, firms and corporations, who engage in that business in any county; providing certain penalties; providing certain exemptions from this Act; providing for appeal from the decision of the Securities Commissioner; providing for administration of this Act by the successor to the Securities Commissioner; providing for licensing fees; declaring legislative intent and declaring an emergency."

S. B. No. 278, A bill to be entitled "An Act creating the County Court at Law No. 4 of Bexar County, Texas; providing for its jurisdiction, terms, personnel, administration, and practice; abolishing the County Civil Court at Law of Bexar County, Texas; repealing Chapter 114, Acts of the 58th Legislature, 1963; and declaring an emergency."

(With amendments.)

S. B. No. 391, A bill to be entitled "An Act to reconstitute the membership of the State Building Commission as provided by Article III, Section 51-b, Constitution of Texas, 1876, as amended, by adding the Lieutenant Governor to the State Building Commission in place of the Chairman of the Board of Control; and declaring an emergency."

S. B. No. 453, A bill to be entitled "An Act amending Part 5 of the Texas Business Corporation Act, H. B. 16, Acts of 1955, Fifty-fourth Legislature, ch. 64, p. 239, by adding thereto a new Article 5.14 providing for deposit of costs in a suit by a shareholder or shareholders on behalf of corporation where the ownership interest of the complainants is less than a minimum 5% percentage; and renumbering Article 5.14 and 5.15; providing for severability; and declaring an emergency."

(With amendments.)

S. B. No. 12, A bill to be entitled "An Act creating a Texas State Committee on Aging to be known as the 'Governor's Committee on Aging'; providing for the appointment of the Committee, a Governor's Citizens Council on Aging; a Coordinator of Aging, and such other appropriate staff as is deemed necessary, and defining their term of office, powers, duties, functions, responsibility, and relationship with other agencies and officers of the State; authorizing the Committee to accept and expend funds made available through any Federal and/or State grant or appropriation for the purposes of carrying out the purposes of this Act; authorizing the Committee to accept gifts and/or grants from private sources and to expend same in the interest of furthering the purposes set out in this Act; providing a repealing clause, a saving clause; and declaring an emergency."

The House has adopted the Conference Committee Report on Senate Bill No. 141 by a non-record vote.

H. C. R. No. 140, Be it Resolved by the House of Representatives, the Senate concurring, That the Joint Rules of the two Houses be, and they are hereby, suspended so that either House may take up and consider House Bill No. 195 at any time.

S. B. No. 30, A bill to be entitled "An Act authorizing the transfer of

properties of county junior college districts after a State-supported senior college has been created within said district, to such senior college; providing that such junior college districts shall not further maintain a junior college; authorizing the levy of taxes annually to pay off outstanding indebtedness of the junior college districts and to pay necessary administrative costs; authorizing the issuance of tax-supported bonds for the purpose of paying off revenue bonds of such districts; authorizing temporary loans for paying off current operating expenses; validating all proceedings of the Board of Trustees of such districts; repealing all laws or parts of laws in conflict; containing a severability clause; and declaring an emergency."

S. B. No. 63, A bill to be entitled "An Act amending Subsection (a) of Section 109 of the Texas Probate Code so as to provide that either the father or the mother is entitled to appointment as guardian of the estates of the minor children by the marriage if the parents live together; and declaring an emergency."

S. B. No. 84, A bill to be entitled "An Act relating to the licensing and regulation of motor transportation brokers by the Railroad Commission of Texas; providing an effective date; providing a severability clause; repealing conflicting laws; and declaring an emergency."

H. C. R. No. 19, Providing for the Legislative Council to continue the study of nonacademic psychological testing in the public schools of Texas.

H. C. R. No. 54, Granting permission to George M. Stephenson to sue the State of Texas.

H. C. R. No. 109, Granting permission to W. R. Aldrich and Co. to sue the State of Texas.

H. C. R. No. 115, Granting permission to Edwin Donald Calvit to sue the State of Texas.

H. C. R. No. 98, Granting permission to the Cayo Development Corporation to sue the State of Texas.

Respectfully submitted,

DOROTHY HALLMAN,  
Chief Clerk, House of Representatives

### House Joint Resolution 25 on Second Reading

The President laid before the Senate on its second reading and passage to third reading:

H. J. R. No. 25, A Joint Resolution authorizing the Legislature to provide that a portion of the State's share of ad valorem taxes collected in a county, under certain conditions, may be released for use by that county for hospital and health services, and providing for the issuance of the necessary proclamation by the Governor.

The resolution was read second time.

Question—Shall H. J. R. No. 25 be passed to third reading?

### Bill and Resolution Signed

The President signed in the presence of the Senate after the caption had been read, the following enrolled bill and resolution:

S. B. No. 80, A bill to be entitled "An Act amending Section 36 of the Texas Trust Act, and particularly Subsections A and B thereof, to eliminate overlapping or conflict with the definitions of Subsection 4 of said Act; permitting trustees' compensation or commissions and attorney's fees to be charged either against principal or income of a trust, or between both; and declaring an emergency."

S. C. R. No. 102, In memory of Joe Dave Scott of Snyder.

### House Bill 841 Ordered Not Printed

On motion of Senator Cole and by unanimous consent H. B. No. 841 was ordered not printed.

### House Bill 842 Ordered Not Printed

On motion of Senator Cole and by unanimous consent H. B. No. 842 was ordered not printed.

### House Bill 977 Ordered Not Printed

On motion of Senator Cole and by unanimous consent H. B. No. 977 was ordered not printed.

### House Bill 978 Ordered Not Printed

On motion of Senator Cole and by unanimous consent H. B. No. 978 was ordered not printed.

### House Bill 979 Ordered Not Printed

On motion of Senator Cole and by unanimous consent H. B. No. 979 was ordered not printed.

### Senate Concurrent Resolution 107

Senator Crump offered the following resolution:

S. C. R. No. 107, Granting Sam McCollum III permission to sue the State.

Whereas, There exists in escrow with the Veteran's Land Board the sum of \$17,320.00, which is designated in two accounts, one being in the amount of \$15,270.00 and being part of the State Treasurer Land Office Suspense Fund #900 and the other being in the amount of \$2,050.00 and being part of the Veteran's Service Fee Account of the General Land Office of Texas, and to which Sam McCollum III of McCulloch County claims to be the apparent owner thereof under an assignment of interest from the original depositor; and

Whereas, The correct, legal ownership of said \$17,320.00 cannot be determined without judicial ascertainment thereof; and

Whereas, The said Sam McCollum III desires to file suit against the State of Texas for title and possession of said Seventeen Thousand Three Hundred Twenty and no/100 Dollars (\$17,320.00) now held by the Veteran's Land Board of Texas and desires that said suit be filed in a State District Court of competent jurisdiction so that he may obtain said funds which he alleges belong to him; now, therefore, be it

Resolved by the Senate, the House of Representatives concurring, that permission be and it is hereby granted to Sam McCollum III to institute suit against the State of Texas and the Veteran's Land Board as defendants by an independent cause of action brought in the District Court of Travis County, or McCulloch County, Texas for a determination and declaration of the rights of the parties to the Seventeen Thousand Three Hundred Twenty and no/100 Dollars (\$17,320.00) above mentioned, and that suitable process be issued according to the Rules of Civil Procedure governing such process in civil cases; and, be it further

Resolved, That nothing herein shall be construed as an admission of lia-

bility on the part of the State of Texas, the Veteran's Land Board or any executive official therein as to the validity of any allegation or claims asserted in said action but that all allegations and claims asserted herein or to be asserted in said suit shall be proved as in other suits and under the same rules of evidence and civil procedure as in other actions; and, be it further

Resolved, That nothing herein shall be construed as a waiver of any question of fact as well as of law that may be asserted or be available to the State of Texas or any other part defendant or of any agencies of the State of Texas, in said suit, but all such defenses are hereby specifically reserved.

The resolution was read and was referred to the Committee on Jurisprudence.

#### Reports of Standing Committees

Senator Ratliff by unanimous consent submitted the following report:

Austin, Texas,  
May 19, 1965.

Hon. Preston Smith, President of the Senate.

Sir: We, your Committee on Counties, Cities and Towns, to which was referred H. B. No. 940, have had the same under consideration, and we are instructed to report it back to the Senate with the recommendation that it do pass as amended and be printed.

RATLIFF, Chairman.

Senator Herring by unanimous consent submitted the following report:

Austin, Texas,  
May 19, 1965.

Hon. Preston Smith, President of the Senate.

Sir: We, your Committee on Jurisprudence, to which was referred S. C. R. No. 107, have had the same under consideration and we are instructed to report it back to the Senate with the recommendation that it do pass and be printed.

HERRING, Chairman.

#### House Bill 940 Ordered Not Printed

On motion of Senator Spears and by unanimous consent H. B. No. 940 was ordered not printed.

#### Senate Concurrent Resolution 107 Ordered Not Printed

On motion of Senator Crump and by unanimous consent S. C. R. No. 107 was ordered not printed.

#### Conference Committee on House Joint Resolution 1

Senator Reagan called from the President's table for consideration at this time, the request of the House for a Conference Committee to adjust the differences between the two Houses on H. J. R. No. 1 and moved that the request be granted.

The motion to grant the request prevailed.

Accordingly, the President announced the appointment of the following Conferees on the resolution on the part of the Senate: Senators Reagan, Hall, Krueger, Ratliff, and Bates.

#### Bills Signed

The President signed in the presence of the Senate after the caption had been read the following enrolled bills:

S. B. No. 82, A bill to be entitled "An Act amending Sections 12 and 14 of the Texas Trust Act to provide that a corporate trustee, executor, administrator or guardian, when authorized by will, trust agreement, other trust instrument, or judicial order, to retain its own capital stock in trust, may purchase fractional shares resulting from stock dividends, provided such purchase, in the circumstances then prevailing, shall be consistent with the judgment and care which men of ordinary prudence exercise in the management of their own affairs; and declaring an emergency."

S. B. No. 235, A bill to be entitled "An Act authorizing the Board for Texas State Hospitals and Special Schools to grant such easements and rights-of-way as shall be necessary to construct, improve, renovate, use and operate institutions under its control and management; and declaring an emergency."

S. B. No. 512, A bill to be entitled "An Act amending Section 20, Chapter 404, Acts of the 45th Legislature, Regular Session, 1937, as amended, relating to the exemption of certain persons from regulation as an engineer; and declaring an emergency."

S. B. No. 527, A bill to be entitled "An Act relating to the authority and responsibilities of and the records kept by the State Commission for the Blind; amending Statutes; etc.; and declaring an emergency."

S. B. No. 301, A bill to be entitled "An Act to add to the Insurance Code (Acts of 1951, 52nd Legislature, Chapter 491) a new Article providing that nothing in such code shall prohibit a life insurance company from guaranteeing to the Trustee of a qualified pension or profit-sharing plan to issue individual life insurance policies on other than the term plan upon the lives of participants in the plan without evidence of insurability, and defining 'qualified pension or profit-sharing plan'; etc.; and declaring an emergency."

S. B. No. 459, A bill to be entitled "An Act establishing a juvenile board, an office of chief juvenile probation officer and a probation department in Harris County; and providing that the district clerk of Harris County shall receive support payments for wives and children; and declaring an emergency."

S. B. No. 348, A bill to be entitled "An Act amending Section 3 of Chapter 340, Acts of the 53rd Legislature, Regular Session, 1953, to permit Texas state institutions of the college rank to enter into interagency agreements with the Texas Highway Department; providing for the maintenance, improvement, relocation or extension of existing on-campus streets, parking lots, and access-ways; and declaring an emergency."

S. B. No. 384, A bill to be entitled "An Act relating to the appointment of county child welfare boards; amending Section 4, Chapter 194, General Laws, Acts of the 42nd Legislature, Regular Session, 1931; and declaring an emergency."

S. B. No. 460, A bill to be entitled "An Act establishing The Juvenile Court of Harris County; repealing Chapter 186, Acts of the 55th Legislature, Regular Session, 1957; and declaring an emergency."

#### House Bill on First Reading

The following bill received from the House was read the first time and referred to the committee indicated:

H. B. No. 960—To the Committee on Counties, Cities and Towns.

#### Senate Bill 547 on Third Reading

Senator Word asked unanimous consent to suspend the regular order of of business and take up S. B. No. 547 for consideration at this time.

There was objection.

Senator Word then moved to suspend the regular order of business and take up S. B. No. 547 for consideration at this time.

The motion prevailed by the following vote:

#### Yeas—24

Aikin	Kennard
Bates	Krueger
Blanchard	Patman
Cole	Ratliff
Colson	Reagan
Creighton	Richter
Dies	Rogers
Hall	Schwartz
Harrington	Snelson
Herring	Spears
Hightower	Strong
Kazen	Word

#### Nays—5

Calhoun	Moore
Crump	Parkhouse
Hardeman	

#### Absent

Hazlewood

#### Absent—Excused

Watson

The President laid before the Senate on its third reading and final passage:

S. B. No. 547, A bill to be entitled "An Act reapportioning the Senate of Texas; providing for filing fees for senators; amending Section 4, Chapter 256, Acts of the 57th Legislature, Regular Session, 1961, and Article 193, Texas Election Code, as amended; repealing Section 5, Chapter 256, Acts of the 57th Legislature, Regular Session, 1961; and declaring an emergency."

The bill was read the third time.

Senator Snelson offered the following amendment to the bill:

Amend the Word Substitute for S. B. No. 547, Section 30, by removing the counties of Jeff Davis, Brewster and Presidio from the 29th District and adding same to the 25th District.

HARDEMAN  
SNELSON

The amendment was read and was adopted by the following vote:

Yeas—29

Aikin	Kennard
Bates	Krueger
Blanchard	Moore
Calhoun	Parkhouse
Cole	Patman
Colson	Ratliff
Creighton	Reagan
Crump	Richter
Dies	Rogers
Hall	Schwartz
Hardeman	Snelson
Harrington	Spears
Herring	Strong
Hightower	Word
Kazen	

Absent

Hazlewood

Absent—Excused

Watson

Senator Cole offered the following amendment to the bill:

Amend Senate Bill 547 by striking all of Sections 7, 8, 12, 16, and 18, and substituting in lieu thereof:

"Sec. 7. District 6 is composed of that part of Harris County included in the following:

Beginning at the point where U. S. Highway 290 intersects the common line between Harris and Waller Counties;

Then southeast along the U. S. Highway 290 to the Texas and New Orleans Railroad;

Then east along the Texas and New Orleans Railroad to Heights Boulevard;

Then south along Heights Boulevard to Waugh Drive;

Then south along Waugh Drive to Buffalo Bayou;

Then east along Buffalo Bayou to McKee Street;

Then north along McKee Street to Lyons Avenue;

Then east along Lyons Avenue to Hardy Street;

Then north along Hardy Street to the Houston Belt and Terminal Railroad;

Then east along the Houston Belt and Terminal Railroad to Jensen Drive;

Then north along Jensen Drive to Halls Bayou;

Then east along Halls Bayou to the T. & N. O. Railroad;

Then south along the T. & N. O. Railroad to Laura Koppe Road;

Then east along Laura Koppe Road to Missouri Pacific Railroad (B. S. L. & W. Railroad);

Then northeast along Missouri Pacific Railroad (B. S. L. & W. Railroad) to the west shore line of Lake Houston;

Then north along the west shore line of Lake Houston to Atascocito Road;

Then northeast along Atascocito Road to the common line between Harris and Liberty Counties;

Then northwest along the common line between Harris and Liberty Counties to the common line between Harris and Montgomery Counties;

Then west along the common line between Harris and Montgomery Counties to the common line between Harris and Waller Counties;

Then south along the common line between Harris and Waller Counties to the point intersected by U. S. Highway 290, point of origin.

"Sec. 8. District 7 is composed of that part of Harris County included in the following:

Beginning at the point where the Barbers Hill Road intersects the common line between Harris and Liberty Counties;

Then west along the Barbers Hill Road to the Crosby-Lynchburg Road;

Then south along the Crosby-Lynchburg Road to the H. N. S. Railroad;

Then east and south along the H. N. S. Railroad to the San Jacinto River;

Then southeast along the San Jacinto River to the Ship Channel (Buffalo Bayou);

Then west along the Ship Channel (Buffalo Bayou) to Bray's Bayou;

Then south and west along Brays Bayou to the Gulf Freeway;

Then northwest along the Gulf Freeway to Pierce Street;

Then northwest along Pierce Street to Main Street;

Then southwest along Main Street to Holcombe Boulevard;

Then east along Holcombe Boulevard to Old Spanish Trail;

Then east along Old Spanish Trail to Griggs Road;

Then southeast along Griggs Road to Cullen Boulevard;

Then southwest along Cullen Boulevard to Chocolate Bayou Road;

Then south along Chocolate Bayou Road to Sims Bayou;

Then east along Sims Bayou to Telephone Road;

Then south along Telephone Road to Braniff Street;

Then east along Braniff Street to Monroe Road;

Then north along Monroe Road to Airport Boulevard;

Then east along Airport Boulevard to the Gulf Freeway;

Then southeast along the Gulf Freeway to the common line between Harris and Galveston Counties;

Then east and north along the Harris County line to the common line between Harris and Chambers County;

Then east and north along the common line between Harris and Chambers Counties to Barbers Hill Road, the point of origin.

"Section 12. District 11 is composed of that part of Harris County included in the following:

Beginning at the point along the common line between Harris and Liberty Counties intersected by Atascocito Road;

Then southwest along Atascocito Road to the west shore line of Lake Houston;

Then south along the west shore line of Lake Houston to the Missouri Pacific Railroad (B. S. L. & W. Railroad);

Then southwest along the Missouri Pacific Railroad track to Laura Koppe Road;

Then west along Laura Koppe Road to the T. & N. O. Railroad track;

Then north along the T. & N. O. Railroad track to Halls Bayou;

Then west along Halls Bayou to Jensen Drive;

Then south along Jensen Drive to Houston Belt and Terminal Railroad;

Then west along the Houston Belt and Terminal Railroad to Hardy Street;

Then south along Hardy Street to Lyons Avenue;

Then west along Lyons Avenue to McKee Street;

Then south along McKee Street to Buffalo Bayou;

Then west along Buffalo Bayou to Main Street;

Then southwest along Main Street to Pierce Street;

Then southeast along Pierce Street to the Gulf Freeway;

Then southeast along the Gulf Freeway to Brays Bayou;

Then east and northeast along Brays Bayou to the Ship Channel (Buffalo Bayou);

Then east along the Ship Channel (Buffalo Bayou) to the San Jacinto River;

Then north along the San Jacinto River to the H. N. S. Railroad;

Then north and east along the H. N. S. Railroad to the Crosby-Lynchburg Road;

Then north along the Crosby-Lynchburg Road to Barbers Hill Road;

Then east along the Barbers Hill Road to the point where it intersects the common line between Harris and Chambers Counties;

Then north and west along the common line between Harris and Chambers Counties to the common line between Harris and Liberty Counties;

Then north and west along the common line between Harris and Liberty Counties to Atascocito Road, the point of origin.

"Sec. 16. District 15 is composed of that part of Harris County included in the following:

Beginning at the point where U. S. Highway 290 intersects the common line between Harris and Waller Counties;

Then southeast along U. S. Highway 290 to the Texas and New Orleans Railroad;

Then east along the Texas and New Orleans Railroad to Heights Boulevard;

Then south along Heights Boulevard to Waugh Drive;

Then south along Waugh Drive to Buffalo Bayou;

Then east along Buffalo Bayou to Main Street;

Then southwest along Main Street to Holcombe Boulevard;



Then east along Holcombe Boulevard to Old Spanish Trail;

Then east along Old Spanish Trail to Griggs Road;

Then southeast along Griggs Road to Cullen Boulevard;

Then southwest along Cullen Boulevard to Chocolate Bayou Road;

Then south along Chocolate Bayou Road to Reed Road;

Then west along Reed Road to Alameda Road;

Then south along Alameda Road to the common line between Harris and Fort Bend Counties;

Then west and north along the common line between Harris and Fort Bend Counties to the common line between Harris and Waller Counties;

Then north along the common line between Harris and Waller Counties to the point intersected by U. S. Highway 290, the point of origin.

"Sec. 18. District 17 is composed of Brazoria, Fort Bend, Galveston, and Waller Counties, and that part of Harris County included in the following:

Beginning at the point where the Gulf Freeway intersects the common line between Harris and Chambers Counties;

Then northwest along the Gulf Freeway to Airport Boulevard;

Then west along Airport Boulevard to Monroe Road;

Then south along Monroe Road to Braniff Street;

Then west along Braniff Street to Telephone Road;

Then north along Telephone Road to Sims Bayou;

Then west along Sims Bayou to Chocolate Bayou Road;

Then south along Chocolate Bayou Road to Reed Road;

Then west along Reed Road to Alameda Road;

Then southwest along Alameda Road to the common line between Harris and Fort Bend Counties;

Then east along the Harris County line to the Gulf Freeway, the point of origin."

COLE  
SCHWARTZ

The amendment was read and was adopted by the following vote:

Yeas—29

Aikin	Calhoun
Bates	Cole
Blanchard	Colson

Creighton	Parkhouse
Crump	Patman
Dies	Ratliff
Hall	Reagan
Hardeman	Richter
Harrington	Rogers
Herring	Schwartz
Hightower	Snelson
Kazen	Spears
Kennard	Strong
Krueger	Word
Moore	

Absent

Hazlewood

Absent—Excused

Watson

Senator Blanchard offered the following amendment to the bill:

Amend the Word substitute for S. B. 547, Sec. 25 by removing Martin County from Dist. 24 and adding the same to the 28th Senatorial District.

The amendment was read and was adopted by the following vote:

Yeas—30

Aikin	Kazen
Bates	Kennard
Blanchard	Krueger
Calhoun	Moore
Cole	Parkhouse
Colson	Patman
Creighton	Ratliff
Crump	Reagan
Dies	Richter
Hall	Rogers
Hardeman	Schwartz
Harrington	Snelson
Hazlewood	Spears
Herring	Strong
Hightower	Word

Absent—Excused

Watson

The bill was then finally passed.

#### Record of Vote

Senator Parkhouse asked to be recorded as voting "Nay" on the final passage of S. B. No. 547.

#### Reports of Standing Committees

Senator Creighton by unanimous consent submitted the following report:

Austin, Texas,  
May 19, 1965.

Hon. Preston Smith, President of the Senate.

Sir: We, your Committee on Game and Fish, to which was referred H. B. No. 341, have had the same under consideration, and I am instructed to report it back to the Senate with the recommendation that it do pass and be printed.

CREIGHTON, Chairman.

Senator Parkhouse by unanimous consent submitted the following report:

Austin, Texas,  
May 19, 1965.

Hon. Preston Smith, President of the Senate.

Sir: We, your Committee on Water and Conservation, to which was referred H. B. No. 988, have had the same under consideration, and I am instructed to report it back to the Senate with the recommendation that it do pass and be printed.

PARKHOUSE, Chairman.

Senator Ratliff by unanimous consent submitted the following report:

Austin, Texas,  
May 19, 1965.

Hon. Preston Smith, President of the Senate.

Sir: We, your Committee on Counties, Cities and Towns to which was referred H. B. No. 960, have had the same under consideration, and we are instructed to report it back to the Senate with the recommendation that it do pass and be printed.

RATLIFF, Chairman.

House Bill 663 Ordered Not Printed

On motion of Senator Blanchard and by unanimous consent H. B. No. 663 was ordered not printed.

House Bill 1123 Ordered Not Printed

On motion of Senator Blanchard and by unanimous consent H. B. No. 1123 was ordered not printed.

Senate Bill 107 with  
House Amendments

Senator Hardeman called S. B. No. 107 from the President's table for consideration of the House amendments to the bill.

The President laid the bill and the House amendments before the Senate.

The House amendments were read.

Senator Hardeman moved that the Senate do not concur in the House amendments, but that a Conference Committee be appointed to adjust the differences between the two Houses on the bill.

The motion prevailed.

Accordingly, the President announced the appointment of the following conferees on the part of the Senate on the bill:

Senators Hardeman, Bates, Blanchard, Moore and Dies.

Amendments to Senate Bill 107  
Ordered Not Printed in  
Senate Journal

On motion of Senator Hardeman and by unanimous consent the House Committee Substitute to S. B. No. 107 and the amendments thereto were ordered not printed in today's Senate Journal as the Conference Committee Report on S. B. No. 107 would be printed in the Senate Journal.

Senate Bill 575 on First Reading

Senator Kennard moved that Senate Rule 114 and Section 5 of Article III of the State Constitution be suspended to permit his introducing at this time, a bill, the provisions of which he explained.

The motion prevailed by the following vote:

Yeas—30

Aikin	Kazen
Bates	Kennard
Blanchard	Krueger
Calhoun	Moore
Cole	Parkhouse
Colson	Patman
Creighton	Ratliff
Crump	Reagan
Dies	Richter
Hall	Rogers
Hardeman	Schwartz
Harrington	Snelson
Hazlewood	Spears
Herring	Strong
Hightower	Word

Absent—Excused

Watson

The following bill was then introduced, read first time and referred to the Committee indicated:

By Senators Kennard, Herring, Patman, Word, Blanchard, Spears and Crump:

S. B. No. 575, A bill to be entitled "An Act to provide an additional adjustment in the local fund assignment in any school district having five per cent (5%) or more of its total scholastic population for the preceding school year composed of students who are residents of tax-exempt institutions for orphan, dependent, and neglected children; providing a formula for determining such adjustment; providing for the reporting of certain information to the Central Education Agency; and declaring an emergency."

To the Committee on Education.

#### Conference Committee Report on House Bill 48

Senator Parkhouse submitted the following Conference Committee Report on H. B. No. 48:

Austin, Texas,  
May 12, 1965.

Hon. Preston Smith, President of the Senate.

Hon. Ben Barnes, Speaker of the House of Representatives.

Sirs: We, your Conference Committee appointed to adjust the differences between the House and Senate on House Bill No. 48, have met and adjusted our differences and beg leave to recommend that House Bill No. 48 be passed in the form attached hereto.

Respectfully submitted,

PARKHOUSE  
HERRING  
COLSON  
KAZEN  
RATLIFF

On the part of the Senate.

FIELD  
BURGESS  
WRIGHT  
CRAIN  
JOHNSON

On the part of the House.

H. B. No. 48,

#### A BILL To Be Entitled

An Act relating to the exemption of the children of certain firemen,

peace officers, employees of the Texas Department of Corrections, and game wardens from payment of tuition and other fees at state institutions of higher education; and declaring an emergency.

#### BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF TEXAS:

Section 1. Definitions. In this Act, unless the context requires another meaning:

(1) "eligible employee" means a full-paid or volunteer fireman, or a full-paid municipal, county, or state peace officer, or a custodial employee of the Texas Department of Corrections, or a game warden, who has a child under 21 years of age;

(2) "disability" means inability to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or to be of long-continued and indefinite duration. An individual shall not be considered to be under a disability unless he furnishes such proof of the existence thereof as may be required.

Sec. 2. Exemption. (a) The governing boards of the state institutions of higher education shall exempt from the payment of all tuition and laboratory fees any person whose parent is an eligible employee who has suffered an injury, resulting in death or disability, sustained in the line of duty according to the regulations and criteria then in effect governing the department or agency in which he was employed.

(b) The exemption does not apply to deposits, such as library deposits, which are required in the nature of security for the proper care or return of property loaned for the use of students, or to any fees or charges for lodging, board or clothing.

(c) A person is not entitled to the exemption if he:

(1) does not apply initially for the exemption before he becomes 21 years of age;

(2) does not meet all entrance requirements of the institution;

(3) does not maintain a scholastic average sufficient to remain in good standing.

(d) A person loses his right to an exemption after eight consecutive semesters, not including summer semesters, beginning with the first semester for which he registers.

(e) A person entitled to an exemption under the provisions of this Act may use such exemption:

(1) only at the public senior college or university which he first attends under the provisions of this Act; or

(2) only at the public junior college which he first attends, and upon successful completion of four consecutive semesters at such public junior College he may continue to use such exemption for four consecutive semesters only at the public senior college or university which he subsequently first attends; provided that a person entitled to an exemption under the provisions of this Act shall, when transferring from a public junior college to a public senior college or university, meet the standard entrance requirements required by such senior college or university of an applicant for admission not covered by the provisions of this Act.

Sec. 3. Physical Examination. (a) An eligible employee whose injury results in a disability shall submit to a physical examination by a physician designated by the United States Social Security Administration to conduct physical examinations and to make disability reports to the Social Security Administration.

(b) If the physician decides the injury received has resulted in a disability he shall certify this fact to the head of the department which employs the employee.

Sec. 4. Certification. (a) The head of the department which employed the eligible employee at the time he sustained the injury shall file a certificate with the Commissioner of Higher Education on a form prepared by the Commissioner for the purpose. The head of the department shall attach the certificate of the examining physician if an examination is required by Section 3 of this Act.

(b) A copy of the certificate on file with the commissioner is sufficient evidence for the institution to grant the exemption.

Sec. 5. Emergency. The importance of this legislation and the crowded condition of the calendars in both Houses create an emergency and an imperative public necessity that the Constitutional Rule requiring bills to be read on three several days in each House be suspended, and the Rule is hereby suspended.

The Conference Committee Report was read and was adopted.

#### House Bill on First Reading

The following bill received from the House was read the first time and referred to the committee indicated:

H. B. No. 1099, To the Committee on Counties, Cities and Towns.

#### Reports of Standing Committees

Senator Schwartz by unanimous consent submitted the following report:

Austin, Texas,  
May 19, 1965.

Hon. Preston Smith, President of the Senate.

Sir: We, your Committee on Military and Veterans' Affairs, to which was referred H. B. No. 419, have had the same under consideration, and I am instructed to report it back to the Senate with the recommendation that it do pass, and be printed.

SCHWARTZ, Chairman.

Senator Ratliff by unanimous consent submitted the following reports:

Austin, Texas,  
May 19, 1965.

Hon. Preston Smith, President of the Senate.

Sir: We, your Committee on Counties, Cities and Towns, to which was referred H. B. No. 316, have had the same under consideration, and I am instructed to report it back to the Senate with the recommendation that it do pass, and be printed.

RATLIFF, Chairman.

Austin, Texas,  
May 19, 1965.

Hon. Preston Smith, President of the Senate.

Sir: We, your Committee on Counties, Cities and Towns, to which was referred H. B. No. 1099, have had the same under consideration, and I am instructed to report it back to the Senate with the recommendation that it do pass, and be printed.

RATLIFF, Chairman.

#### House Bill 419 Ordered Not Printed

On Motion of Senator Kazen and by unanimous consent H. B. No. 419 was ordered not printed.

#### House Bill 341 Ordered Not Printed

On motion of Senator Aikin and

by unanimous consent H. B. No. 341 was ordered not printed.

#### House Bill 1099 Ordered Not Printed

On motion of Senator Strong and by unanimous consent H. B. No. 1099 was ordered not printed.

#### Recess

On motion of Senator Hardeman the Senate at 12:00 o'clock M. took recess until 2:30 o'clock p.m. today.

#### After Recess

The President called the Senate to order at 2:30 o'clock p.m.

#### Report of Standing Committee

Senator Dies by unanimous consent submitted the following report:

Austin, Texas,  
May 19, 1965.

Hon. Preston Smith, President of the Senate.

Sir: We, your Committee on Privileges and Elections, to which was referred H. B. No. 258, have had the same under consideration, and I am instructed to report it back to the Senate with the recommendation that it do pass, as amended, and be printed.

DIES, Chairman.

#### Communication Ordered Printed in Senate Journal

Senator Hightower read the following communication from Mrs. Joe Betsy Allred:

May 13th, 1965

The Members of the Senate of the State of Texas

Dear Friends:

I was deeply touched when I opened and read the Senate Resolution which you sent me in memory of my precious son, Jimmie. My boys and I appreciate, more than words can express, this Resolution and this lovely tribute which you have paid to Jimmie in the Senate Journal.

I know his father would have appreciated it as much as I do.

This sorrow has been almost more than we could bear. The loving concern of our friends has helped to ease the ache in our hearts.

I have felt undergirded by our Master's supporting strength for which I am most grateful.

With kindest personal regards to each of you,

Sincerely,

JOE BETSY ALLRED

On motion of Senator Aikin and by unanimous consent the communication was ordered printed in the Senate Journal.

#### House Joint Resolution 25 on Second Reading

The President laid before the Senate as Unfinished Business H. J. R. No. 25 (The resolution having been read the second time on Wednesday, May 19, 1965).

Question—Shall H. J. R. No. 25 be passed to third reading?

Senator Strong offered the following amendment to the resolution:

Amend H. J. R. No. 25 by striking from Section 1 the word and figure "fifteen (15)" and inserting in lieu thereof the word and figure "fifty (50)."

The amendment was read.

Question—Shall the amendment by Senator Strong to H. J. R. No. 25 be adopted?

On motion of Senator Dies and by unanimous consent H. J. R. No. 25 was recommitted to the Committee on Constitutional Amendments.

#### Senate Bill 278 with House Amendment

Senator Spears called S. B. No. 278 from the President's table for consideration of the House amendment to the bill.

The President laid the bill and the following House amendment before the Senate:

#### Committee Amendment 1

Amend S. B. No. 278 by striking all below the enacting clause and substituting the following:

Section 1. That Section 1 of H. B. No. 262, Ch. 114, Acts of the Regular Session, 58th Legislature, approved

May 3, 1963, be and the same is hereby amended so that the same shall hereafter read as follows:

"Sec. 1. There is hereby created a court to be held in and for Bexar County, Texas, which shall be known as the 'County Civil Court at Law of Bexar County, Texas,' and it shall be the court created by H. B. No. 262, Chapter 114, Acts of the 58th Legislature, Regular Session; provided, however, that upon the effective date of this amendment the name of said Court is changed to and will thereafter be known as the 'Bexar County Court at Law No. 4, of Bexar County, Texas'."

Section 2. That Sec. 2, of H. B. No. 262, Ch. 114, 58th Legislature, Regular Session, approved May 3, 1963, be, and the same is hereby amended so that the same shall hereafter read as follows:

"Sec. 2. The Bexar County Court at Law No. 4, of Bexar County, Texas shall have and exercise concurrent jurisdiction, powers and duties in all civil and criminal actions, proceedings and matters, original and appellate, over which by the Constitution and General Laws of this State, the County Court of Bexar County, Texas, and the County Courts at Law Nos. 1, 2 and 3, of Bexar County have jurisdiction except as provided in Section 3 of this Act."

Section 3. That Sec. 3, of H. B. No. 262, Ch. 114, 58th Legislature, Regular Session, approved May 3, 1963, be, and the same is hereby amended so that the same shall hereafter read as follows:

"Sec. 3. The County Court of Bexar County, Texas, shall retain as heretofore, the general jurisdiction of a probate court; it shall probate wills, appoint guardians of minors, idiots, lunatics, persons non compos mentis, and common drunkards; grant letters testamentary and/or administration, settle accounts of executors, administrators and guardians, transact all business appertaining to deceased persons, and to hear and determine all matters affecting juvenile offenders as now provided by law and to hear and determine all matters affecting minors, idiots, lunatics, persons non compos mentis, and common drunkards, including the settlement, partition and distribution of estates of deceased persons, and shall have jurisdiction to hear and determine all mat-

ters relating to or arising out of the granting or revoking of liquor licenses, and all matters appertaining thereto, and to apprentice minors. The County Judge of Bexar County shall be the Judge of the County Court of Bexar County, and shall be the presiding officer of the Commissioners Court; all ex-officio duties of the County Judge shall be exercised by said Judge of the County Court of Bexar County, except insofar as the same shall, by this Act, or otherwise by law, have been committed to the Judges of the Bexar County Court at Law Nos. 1, 2, 3 and 4, of Bexar County, Texas. The County Court of Bexar County, Texas, and the Judge thereof shall have and retain the same jurisdiction, powers, duties, fees and perquisites of office as are conferred on said County Court of Bexar County, Texas, or the Judge thereof, at and before the passage and taking effect of this Act, and this Act shall in no wise affect said County Court or the Judge thereof except as provided herein.

Section 4. That Sec. 4, of H. B. No. 262, Ch. 114, Acts of the Regular Session, 58th Legislature, approved May 3, 1963, be, and the same is hereby amended so that the same shall hereafter read as follows:

"Sec. 4. From and after the passage and taking effect of this Act, all actions, cases, matters or proceedings of eminent domain arising under Title 52, Articles 3264, to 3271, inclusive, of the Revised Civil Statutes of Texas, as amended, or under the provisions of House Bill No. 77, Chapter 423, pages 1128 to 1130, inclusive, Acts 1955, Regular Session, now codified as Article 6674-n of Vernon's Annotated Civil Statutes of Texas or otherwise, as well as all proceedings instituted under the provisions of the Acts, 1957, Fifty-fifth Legislature, Regular Session, Chapter 243, pages 506, et seq., now codified as Article 5547-1, et seq., Title 92, of the Revised Civil Statutes of Texas, as amended, and known and cited as The Texas Mental Health Code, and all amendments thereto, may be filed, either in the County Court of Bexar County, Texas, or in the Bexar County Court at Law No. 4, of Bexar County, Texas, in the same manner and under the same circumstances and conditions as now obtain for the filing of such actions, proceedings and matters in the County Court of Bexar

County, Texas, or with the County Judge, and all such actions, cases, matters or proceedings shall be docketed in the order in which filed in either of said Courts, or in such other manner as may be determined by the Judge of the Bexar County Court at Law No. 4, of Bexar County, Texas, and the County Judge of Bexar County, Texas. From and after the passage and taking effect of this Act all actions, matters and proceedings over which the Bexar County Court at Law No. 4, of Bexar County, Texas, is granted jurisdiction by this Act may be filed in said Bexar County Court at Law No. 4, of Bexar County, Texas, in the same manner and under the same conditions, circumstances and instances as now obtain for the filing of civil and criminal actions, matters and proceedings in the County Court at Law No. 1, the County Court at Law No. 2, and the County Court at Law No. 3, all of Bexar County, Texas, and all such actions, matters and proceedings shall be docketed in the order in the Court in which filed, or in such manner as may be determined by a majority of the Judges of the said County Courts at Law, and the County Judge of Bexar County, Texas. It is the intention of this Act that the County Court of Bexar County, Texas, and the Bexar County Court at Law No. 4, of Bexar County, Texas, shall have concurrent jurisdiction in all matters of eminent domain or condemnation actions, cases, matters and proceedings and to proceedings instituted under the provisions of the Texas Mental Health Code."

Section 5. That Sec. 5, of H. B. No. 262, Ch. 114, Acts of the Regular Session, 58th Legislature, approved May 3, 1963, be, and the same is hereby amended so that the same shall hereafter read as follows:

"Sec. 5. The Bexar County Court at Law No. 4, of Bexar County, Texas, shall have, and exercise, jurisdiction in and over any criminal action, proceeding or matter as the same is now, or may hereafter be, vested in the County Court and/or County Courts at Law of this State having jurisdiction in criminal actions, proceedings and matters under the Constitution and Laws of Texas, and said Bexar County Court at Law No. 4, of Bexar County, Texas, shall have appellate jurisdiction of appeals in criminal cases or matters from the Justice Courts of Bexar County, Texas, or

from the Corporation Courts of the several incorporated cities and/or towns within said County, the same as is now, or may hereafter be, vested in the Judges of the County Courts and/or County Courts at Law of this State, having criminal jurisdiction.

Section 6. That Sec. 6, of H. B. No. 262, Ch. 114, Acts of the Regular Session, 58th Legislature, approved May 3, 1963, be, and the same is hereby amended so that the same shall hereafter read as follows:

"Sec. 6. The Bexar County Court at Law No. 4, of Bexar County, Texas, shall hold six (6) terms of Court each year, commencing on the first Monday in January, March, May, July, September and November of each year, and each term shall continue until the business of said Court shall have been disposed of, provided, however, that no term of said Court shall continue beyond the date fixed for the commencement of its new term, except upon an order entered on its Minutes during the term extending the term for any particular causes therein specified."

Section 7. That Sec. 7, of H. B. No. 262, Ch. 114, Acts of the Regular Session, 58th Legislature, approved May 3, 1963, be, and the same is hereby amended so that the same shall hereafter read as follows:

"Sec. 7. The Judge of said Bexar County Court at Law No. 4, Bexar County, Texas, shall be elected at the general election by the qualified voters of Bexar County for a term of four (4) years and shall hold his office until his successor shall have been elected and qualified. He shall be a duly licensed and practicing member of the Bar of this State; he shall take the oath of office prescribed by the Constitution of Texas, but no bond shall be required of such Judge. The Judge of the Bexar County Court at Law No. 4, of Bexar County, Texas, shall receive and shall be paid the same salary as is now, or as may hereafter be, prescribed by law for the Judges of the several County Courts at Law of Bexar County, Texas, in equal monthly installments out of the General Fund of Bexar County, Texas by warrants drawn on the County Treasurer of said County upon orders of the Commissioners Court of Bexar County."

Section 8. That Sec. 8, of H. B. No. 262, Ch. 114, Acts of the Regular Session, 58th Legislature, approved May 3, 1963, be, and the same is hereby

amended so that the same shall hereafter read as follows:

"Sec. 8. As this act does not create a new court, but merely changes the name of the "County Civil Court at Law of Bexar County, Texas," to the, "Bexar County Court at Law No. 4, of Bexar County, Texas," that from and after the effective date of this Act, the Judge elected at the General Election in November of 1964, as the Judge of the County Civil Court at Law of Bexar County, Texas, will be the Judge of the Bexar County Court at Law No. 4, of Bexar County, Texas, for the term for which so elected in said General Election of 1964, and at the General Election to be held in November, 1968, a Judge shall be elected as provided in Section 7 hereof.

Section 9. That Sec. 9, of H. B. No. 262, Ch. 114, Acts of the Regular Session, 58th Legislature, approved May 3, 1963, be, and the same is hereby amended so that the same shall hereafter read as follows:

"Sec. 9. The Clerk of said Bexar County Court at Law No. 4, of Bexar County, Texas, shall keep a docket for said Court, the same as is now or may be provided by law for the keeping of dockets for the County Courts at Law of Bexar County, Texas; he shall tax the Official Reporter's fee as costs in civil and criminal actions in like manner as said fee is taxed in the County Courts at Law of Bexar County, Texas, and each of them may, with the consent of the Judge of the Court to which transfer is made, transfer civil and criminal actions, matters and proceedings from his respective court to any one of the other Courts by the entry of an order to that effect upon the docket of such court; and the Judge of the court to which any such civil or criminal action, matter or proceeding shall have been transferred shall have jurisdiction to hear and determine said matter or matters and render and enter the necessary and proper orders, decrees and judgments therein in the same manner and with the same force and effect as if such case, action, matter or proceeding had been originally filed in said court to which transferred. Provided, however, that no cause, action, matter, case or proceeding shall be transferred without the consent of the Judge of the court to which transferred."

Section 10. That Sec. 10, of H. B.

No. 262, Ch. 114, Acts of the Regular Session, 58th Legislature, approved May 3, 1963 be, and the same is hereby amended so that the same shall hereafter read as follows:

"Sec. 10. The Judge of Bexar County Court at Law No. 4, of Bexar County, Texas, and the County Judge of the County Court of Bexar County, Texas, and the Judges of the County Courts of Bexar County, may, at any time, exchange benches with each other, and may at any time, sit and act for each other in any civil or criminal case, proceeding or matter now, or hereafter, pending in any of said County Courts of Bexar County, Texas, and any and all such acts thus performed by the Judge of the Bexar County Court at Law No. 4, of Bexar County, Texas, and/or by the County Judge of Bexar County Court, and/or by either of the Judges of the County Courts at Law of Bexar County, Texas, shall be valid and binding upon all parties to such cases, proceedings and matters."

Section 11. That Sec. 11, of H. B. No. 262, Ch. 114, 58th Legislature, Regular Session, approved May 3, 1963, be, and the same is hereby amended so that the same shall hereafter read as follows:

"Sec. 11. In case of the absence, disqualification or incapacity of the Judge of the Bexar County Court at Law No. 4, of Bexar County, Texas, the County Judge of Bexar County, or any of the Judges of the County Courts at Law of Bexar County, Texas, may sit and act as Judge of said Court and may determine, either in his own courtroom or in the courtroom of said Bexar County Court at Law No. 4, of Bexar County, Texas, any orders in such matters and proceedings as the Judge of said Bexar County Court at Law No. 4, of Bexar County, Texas, might enter if personally presiding therein."

Section 12. That Sec. 12, of H. B. No. 262, Ch. 114, 58th Legislature, Regular Session, approved May 3, 1963, be, and the same is hereby amended so that the same shall hereafter read as follows:

"Sec. 12. A Special Judge may be appointed or elected for the Bexar County Court at Law No. 4, of Bexar County, Texas, in the same manner as may now or hereafter be provided by General Laws of this State relating to the appointment and election of a Special Judge, or Judges, of the several District and County Courts and



County Courts at Law of this State; and every such Special Judge thus appointed or elected for said Court shall receive for his services he may actually perform as such Special Judge the same amount of pay which the regular Judge of said Court would be entitled to receive for such services; and said amount to be paid to such Special Judge shall be paid out of the General Fund of Bexar County, Texas, by warrants drawn upon the County Treasury of said County upon orders of the Commissioners Court of Bexar County, Texas; but no part of the amount paid to any special Judge shall be deducted from or paid out of the salary of the regular Judge of said Bexar County Court at Law No. 4, of Bexar County, Texas."

Section 13. That Sec. 13, of H. B. No. 262, Ch. 114, 58th Legislature, Regular Session, approved May 3, 1963, be, and the same is hereby amended so that the same shall hereafter read as follows:

"Sec. 13. The practice in said Bexar County Court at Law No. 4, of Bexar County, Texas, shall be the same as prescribed by law relating to County Courts and County Courts at Law. Appeals and writs of error may be taken from judgments and orders of said Bexar County Court No. 4 of Bexar County, Texas, and from judgments and orders of the Judge thereof in both civil and criminal cases, and in the same manner as now is, or may hereafter be, prescribed by law relating to appeals and writs of error from judgments and orders of the County Courts and County Courts at Law throughout this State, and the respective judges thereof, in similar cases, and appeals may also be taken from interlocutory orders of said Bexar County Court at Law No. 4, of Bexar County, Texas, overruling a motion to vacate an order appointing a receiver; provided, however, that the procedure and manner in which such appeals from interlocutory orders are taken shall be governed by the laws relating to appeals from similar orders of the District Courts throughout this State."

Section 14. That Sec. 14, of H. B. No. 262, Ch. 114, 58th Legislature, Regular Session, approved May 3, 1963, be, and the same is hereby amended so that the same shall hereafter read as follows:

"Sec. 14. The Judge of the Bexar County Court at Law No. 4, of Bexar County, Texas, may appoint an offi-

cial shorthand reporter, who shall be well skilled in his profession and shall be a sworn officer of the Court, and shall hold his office at the pleasure of the Court and all of the provisions of Chapter 13, Title 42, of the Revised Civil Statutes of Texas, 1925, as amended, and as the same may hereafter be amended and all other provisions of the laws relating to 'official court reporters' shall, and the same are hereby made to apply in all of its provisions, in so far as they are applicable, to the official shorthand reporter herein authorized to be appointed, and in so far as they are not inconsistent with the provisions of this Act, and such official shorthand reporter shall be entitled to the same compensation paid to official shorthand reporters in the District Courts of Bexar County, Texas, and paid in the same manner that compensation of official shorthand reporters of said District Courts of Bexar County is paid."

Section 15. That Sec. 15, of H. B. No. 262, Ch. 114, 58th Legislature, Regular Session, approved May 3, 1963, be, and the same is hereby amended so that the same shall hereafter read as follows:

"Sec. 15. The Judge of the Bexar County Court at Law No. 4, of Bexar County, Texas, upon proper certification of the County Judge of Bexar County, Texas, because of conflicting duties, or absence or inability to act, or upon the failure or refusal of such County Judge to act for any reason or cause, shall also be authorized and empowered to act for and in the place and stead of said County Judge in any probate proceeding or matter, and may also perform for the County Judge of Bexar County, Texas, any and all other ministerial acts required by the laws of this State of said County Judge of Bexar County, and upon any such certification, the Judge of said Bexar County Court at Law No. 4, of Bexar County, Texas, shall give preference and priority to all such actions, matters and proceedings so certified, and any and all such acts thus performed by the Judge of the Bexar County Court at Law No. 4, of Bexar County, Texas, shall be valid and binding upon all parties to such actions, matters, and proceedings the same as if performed by the County Judge of Bexar County, Texas. Notwithstanding the additional powers and duties thus conferred upon the Judge of the Bexar County Court at Law No. 4, of Bexar County, Texas,

by the provisions of this paragraph, no additional compensation or salary shall be paid to such Judge, but the compensation or salary of such Judge shall be and remain the same as now, or as may be hereafter fixed by law."

Section 16. That Sec. 16, of H. B. No. 262, Ch. 114, 58th Legislature, Regular Session, approved May 3, 1963, be, and the same is hereby, amended so that the same shall hereafter read as follows:

"Sec. 16. The County Clerk of Bexar County, Texas, shall be the Clerk of the Bexar County Court at Law No. 4, of Bexar County, Texas, in addition to his duties as they are now, or may hereafter be, prescribed by law. The County Clerk of Bexar County, Texas, shall, upon the taking effect of this Act, or as soon thereafter as may be convenient and necessary, appoint a deputy for said Bexar County Court at Law No. 4, of Bexar County, Texas, provided, however, that the person so appointed must be acceptable to the Judge of said Court, and such appointment must be confirmed in writing by the Judge of said Court before the same becomes effective. Said deputy so appointed shall take the oath of office prescribed by the Constitution of Texas, and the County Clerk of Bexar County, Texas, shall have the power and authority to require said deputy to furnish bond in such amount as he may prescribe and such bond shall be conditioned as prescribed by law. Said deputy shall act in the name of the principal and he may do and perform all such official acts as may be lawfully done and performed by said County Clerk of Bexar County in person and it shall be the duty of said deputy to attend all sessions of the Bexar County Court at Law No. 4, of Bexar County, Texas, and to perform such services in and for said Court as are usually performed by the County Clerk and his deputies in and for the several County Courts of this State, and said deputy shall also perform any and all other services that may, from time to time, be assigned him by the Judge of said Court. Said deputy shall, in all cases, that may be filed in said Bexar County Court at Law No. 4, of Bexar County, Texas, or that may be transferred to said Court from the County Court of Bexar County, Texas, and tax and assess and collect the same fees and costs, and in the same manner as now provided by law for the County Courts of this State, and all such fees and

costs, when collected by said County Clerk and his deputies, as well as any and all other sums of money received by them in their official capacity, shall be deposited in such fund, or paid to the proper person or persons entitled to the same and in the manner as may be prescribed by law. Said deputy so appointed shall, from and after his appointment, confirmation and qualification, as herein provided, continue as such deputy at the pleasure of the Judge of said Bexar County Court at Law No. 4, of Bexar County, Texas, and should said Judge, for any reason whatsoever, not further desire the services of such deputy, the County Clerk of Bexar County shall, upon request of such Judge, appoint another deputy for such Court, such appointment, however, to be made in the manner as hereinbefore provided, and all vacancies, however created, shall be filled by appointment made in like manner. The salary of the deputy appointed for said Court shall be fixed and determined by the Judge of said Court, but shall not exceed the salary now being paid to, or that may in the future be paid to, the deputies for the County Courts at Law of Bexar County, Texas, said annual salary to be paid to such deputy in equal monthly installments in the manner provided by law out of such fund of Bexar County, Texas, as may be provided for the payment of the salaries of the several deputies of the County Clerk. Provided, however, that before such monthly salary is paid to said deputy the Judge of the Bexar County Court at Law No. 4, of Bexar County, Texas, shall cause to be filed with the County Clerk of Bexar County, or with the proper officer of said County, a written statement, signed by said Judge, certifying that said deputy has performed the services required of him and that he is entitled to receive said salary and such salary of said deputy shall be paid to him only upon certification so filed by said Judge. Provided, however, that nothing contained in this Section of this Act is intended to change or alter the duties and powers that have heretofore been and are now being exercised by the County Clerk of Bexar County, Texas, except as herein specifically and expressly set out."

Section 17. That Sec. 17, of H. B. No. 262, Ch. 114, 58th Legislature, Regular Session, approved May 3, 1963, be, and the same is hereby,

amended so that the same shall hereafter read as follows:

"Sec. 17. The Sheriff of Bexar County, Texas, shall, by and through a deputy to be appointed as herein-after provided, attend all sessions of said Bexar County Court at Law No. 4, of Bexar County, Texas, and said Sheriff shall, upon the taking effect of this Act, or as soon thereafter as may be necessary and convenient, appoint one deputy for said Court, provided, however, that the person so appointed must be acceptable to the Judge of said Court and said appointment of said deputy must be approved and confirmed in writing by said Judge before the same becomes effective. The deputy so appointed shall, before assuming his duties, take the oath of office prescribed by law and the Sheriff of Bexar County, Texas, shall be authorized and empowered to require said deputy to furnish bond in such amount as he may determine, the same to be conditioned and payable as may be prescribed by law. Said deputy shall do and perform all such official acts as may be lawfully done and performed by the Sheriff of Bexar County, Texas, in person, and such deputy shall, from and after his appointment, confirmation and qualification as hereinabove provided, continue as such at the pleasure of the Judge of the Bexar County Court at Law No. 4, of Bexar County, Texas, and should said Judge, for any reason whatsoever, no longer desire the services of said deputy, the Sheriff of Bexar County, shall, upon request of such Judge, appoint another deputy for said Court, such appointment however, to be made in the same manner as hereinabove prescribed. It shall be the duty of such deputy to attend all sessions of said Court and also to perform and render such services in and for said Court, and for the Judge thereof, as are usually and generally performed and rendered by Sheriffs and their deputies in and about the several Districts and County Courts of this State, including the serving of any and all process, subpoenas, warrants and writs of any and all kinds, nature or character, in civil and/or criminal matters and proceedings, and it shall be the duty of said deputy to also perform and render any and all other services that may, from time to time, be assigned to him by the

Judge of said Court. Said deputy shall have, possess and enjoy the same rights, powers, authority and privileges that the Sheriffs and their deputies throughout this State now, or may hereafter, have, possess and enjoy; and said deputy is authorized to act for the Deputy Sheriff of the County Court of Bexar County, Texas, and each such deputy shall be authorized and empowered to act for each other, and it shall be the duty of such deputies to act for one another when required to do so by either of the Judges of said Courts, or by the Sheriff, but the deputy thus acting for the other shall not be entitled to receive, nor shall he be paid, any additional compensation. The Sheriff of Bexar County shall, in the event of a vacancy, caused for any reason whatsoever, immediately appoint another deputy for such Court, such appointment, however, to be subject to the written approval and confirmation of the Judge of said Court. The salary of the deputy Sheriff appointed for said Court shall be determined and fixed by the Judge of said Court but shall not exceed the salary now being paid to the deputy Sheriffs for the County Courts at Law of Bexar County, Texas; said annual salary shall be paid to such deputy in equal monthly installments out of such funds of Bexar County as is provided by law for the payment of the salaries of the several deputies of the Sheriff of Bexar County, and payment to be made in the manner prescribed by law. Provided, however, that before such monthly salary is paid to said deputy, the Judge of the Bexar County Court at Law No. 4, of Bexar County, Texas, shall cause to be filed with the Sheriff of Bexar County, Texas, or with the proper officer of said County, a written statement, signed by said Judge, certifying that said deputy has performed and rendered the services required of him and that he is entitled to receive his salary. And provided, further, that nothing contained in this Section of this Act is intended to change or alter the duties and powers of the Sheriff of Bexar County, Texas, except as herein specifically and expressly provided."

Section 18. That Sec. 18, of H. B. No. 262, Ch. 114, 58th Legislature, Regular Session, approved May 3, 1963, be, and the same is hereby,

amended so that the same shall hereafter read as follows:

"Sec. 18. The Bexar County Court at Law No. 4, of Bexar County, Texas, or the Judge thereof, shall have power to issue writs of injunction, of mandamus and all other writs necessary to the enforcement of the jurisdiction of said Court."

Section 19. That Sec. 19, of H. B. No. 262, Ch. 114, 58th Legislature, Regular Session, approved May 3, 1963, be, and the same is hereby, amended so that the same shall hereafter read as follows:

"Sec. 19. The seal of the Bexar County Court at Law No. 4, of Bexar County, Texas, shall be the same as that prescribed by law for County Courts except that such seal shall contain the words 'Bexar County Court at Law No. 4, of Bexar County, Texas,' and said seal shall be judicially noticed."

Section 20. That Sec. 20, of H. B. No. 262, Ch. 114, 58th Legislature, Regular Session, approved May 3, 1963, be, and the same is hereby, amended so that the same shall hereafter read as follows:

"Sec. 20. For the purpose of disposing of the business of said Bexar County Court at Law No. 4, of Bexar County, Texas, there shall be appointed by the Criminal District Attorney of Bexar County, Texas, in addition to the assistants now provided by law, one assistant for the purpose of conducting the duties of his office in said Court. Said assistant shall be paid a salary to be set by the said Criminal District Attorney and approved by the Commissioners Court of Bexar County, Texas, the same to be paid in equal monthly installments by said County upon warrants drawn against the General Fund of Bexar County by orders of the Commissioners Court."

Section 21. That Sec. 21, of H. B. No. 262, 58th Legislature, Regular Session, approved May 3, 1963, be, and the same is hereby, amended so that the same shall hereafter read as follows:

"Sec. 21. All laws and parts of law in conflict with any of the provisions of this Act are hereby repealed to the extent of such conflict only."

Section 22. That Sec. 22, of H. B. No. 262, Ch. 114, 58th Legislature, Regular Session, approved May 3, 1963, be, and the same is hereby, amended so that the same shall hereafter read as follows:

"Sec. 22. If any provisions of this Act or the application thereof to any person or circumstance is held invalid, such invalidity shall not affect other provisions or applications of this Act which can be given effect without the invalid provisions or applications, and to this end the provisions of this Act are declared to be severable."

Section 23. That Sec. 23, of H. B. No. 262, Ch. 114, 58th Legislature, Regular Session, approved May 3, 1963, be, and the same is hereby, amended so that the same shall hereafter read as follows:

"Sec. 23. The fact that the Bexar County Court at Law No. 4, of Bexar County, Texas, should be granted concurrent jurisdiction with the County Court of Bexar County, Texas, in all actions, cases, matters or proceedings of eminent domain arising under Title 52, Articles 3264 to 3271, inclusive, of the Revised Civil Statutes of Texas, as amended, or under the provisions of House Bill No. 77, Chapter 423, pages 1128 to 1130, inclusive, Acts, 1955, Regular Session, now codified as Article 6674-n of Vernon's Annotated Civil Statutes of Texas or otherwise, as well as all proceedings instituted under the provisions of the Acts, 1957, Fifty-Fifth Legislature, Regular Session, Chapter 243, pages 505, et seq., now codified as Article 5547-l, et seq., Title 92 of the Revised Civil Statutes of Texas, as amended, and known and cited as the Texas Mental Health Code, and all amendments thereto, and the further fact that the business of the County Court of Bexar County, and of the several County Courts at Law of Bexar County, is so extensive and voluminous as to render it impossible for said Courts to dispose of the same with due dispatch, thereby seriously obstructing the efficient administration of the laws in said County in condemnation, mental health and other civil and/or criminal matters and proceedings, and the performance of ministerial duties required by the laws of this State of the County Judge of said County, and the crowded condition of the Calendars of both Houses create an emergency and an imperative public necessity that the Constitutional Rule requiring bills to be read on three several days in each House be suspended, and said Rule is hereby suspended, and that this

Act take effect and be in force from and after its passage, and it is so enacted."

The amendment was read.

Senator Spears moved that the Senate concur in the House Amendment.

The motion prevailed.

#### House Bill 474 Re-referred

On motion of Senator Herring and by unanimous consent H. B. No. 474 was withdrawn from the Committee on State Affairs and re-referred to the Committee on State Departments and Institutions.

#### House Bill 1004 Re-referred

On motion of Senator Herring and by unanimous consent H. B. No. 1004 was withdrawn from the Committee on State Affairs and re-referred to the Committee on Jurisprudence.

#### House Bill 779 Re-referred

On motion of Senator Hightower and by unanimous consent H. B. No. 779 was withdrawn from the Committee on State Affairs and re-referred to the Committee on Jurisprudence.

#### House Bill on First Reading

The following bill received from the House was read the first time and referred to the committee indicated:

H. B. No. 126—To the Committee on Counties, Cities and Towns.

#### Conference Committee Report on Senate Bill 141

Senator Creighton submitted the following Conference Committee Report on S. B. No. 141:

Austin, Texas,  
May 19, 1965.

Hon. Preston Smith, President of the Senate.

Hon. Ben Barnes, Speaker of the House of Representatives.

Sir: We, your Conference Committee, appointed to adjust the differences between the Senate and the House of Representatives on S. B. No. 141 have met and had same under consideration, and beg to report it back with the recommendation that it do pass in the form and text hereto attached.

CREIGHTON

CALHOUN  
HERRING  
PARKHOUSE  
WORD

On the part of the Senate.

MOYER  
BLANKENSHIP  
ROSSON  
BROWN  
SATTERWHITE

On the part of the House.

S. B. No. 141

#### A BILL TO BE ENTITLED

AN ACT to be known as the Uniform Commercial Code, relating to Certain Commercial Transactions in or regarding Personal Property and Contracts and other Documents concerning them, including Sales, Commercial Paper, Bank Deposits and Collections, Letters of Credit, Bulk Transfers, Warehouse Receipts, Bills of Lading, other Documents of Title, Investment Securities, and Secured Transactions, including certain Sales of Accounts, Chattel Paper, and Contract Rights; Providing for Public Notice to Third Parties in Certain Circumstances; Regulating Procedure, Evidence and Damages in Certain Court Actions Involving such Transactions, Contracts or Documents; to Make Uniform the Law with Respect Thereto; Repealing Inconsistent Legislation; amending Chapter 195, Acts of the 52nd Legislature, 1951; providing an appropriation; and declaring an emergency.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF TEXAS:

#### ARTICLE 1 GENERAL PROVISIONS

##### PART 1

SHORT TITLE, CONSTRUCTION, APPLICATION AND SUBJECT MATTER OF THE ACT

Section 1—101. Short Title.

This Act shall be known and may be cited as Uniform Commercial Code.

Section 1—102. Purposes; Rules of Construction; Variation by Agreement.

(1) This Act shall be liberally construed and applied to promote its underlying purposes and policies.

(2) Underlying purposes and policies of this Act are:

(a) to simplify, clarify and modernize the law governing commercial transactions;

(b) to permit the continued expansion of commercial practices through custom, usage and agreement of the parties;

(c) to make uniform the law among the various jurisdictions.

(3) The effect of provisions of this Act may be varied by agreement, except as otherwise provided in this Act and except that the obligations of good faith, diligence, reasonableness and care prescribed by this Act may not be disclaimed by agreement but the parties may by agreement determine the standards by which the performance of such obligations is to be measured if such standards are not manifestly unreasonable.

(4) The presence in certain provisions of this Act of the words "unless otherwise agreed" or words of similar import does not imply that the effect of other provisions may not be varied by agreement under subsection (3).

(5) In this Act unless the context otherwise requires:

(a) words in the singular number include the plural, and in the plural include the singular;

(b) words of the masculine gender include the feminine and the neuter, and when the sense so indicates words of the neuter gender may refer to any gender.

Section 1—103. Supplementary General Principles of Law Applicable.

Unless displaced by the particular provisions of this Act, the principles of law and equity, including the law merchant and the law relative to capacity to contract, principal and agent, estoppel, fraud, misrepresentation, duress, coercion, mistake, bankruptcy, or other validating or invalidating cause shall supplement its provisions.

Section 1—104. Construction Against Implicit Repeal.

This Act being a general Act intended as a unified coverage of its subject matter, no part of it shall be deemed to be impliedly repealed by subsequent legislation if such construction can reasonably be avoided.

Section 1—105. Territorial Application of the Act; Parties' Power to Choose Applicable Law.

(1) Except as provided hereafter in this section, when a transaction bears a reasonable relation to this state and also to another state or na-

tion the parties may agree that the law either of this state or of such other state or nation shall govern their rights and duties. Failing such agreement this Act applies to transactions bearing an appropriate relation to this State.

(2) Where one of the following provisions of this Act specifies the applicable law, that provision governs and a contrary agreement is effective only to the extent permitted by the law (including the conflict of laws rules) so specified:

Rights of creditors against sold goods. Section 2—402.

Applicability of the Article on Bank Deposits and Collections. Section 4—102.

Bulk transfers subject to the Article on Bulk Transfers. Section 6—102.

Applicability of the Article on Investment Securities. Section 8—106.

Policy and scope of the Article on Secured Transactions. Sections 9—102 and 9—103.

Section 1—106. Remedies to Be Liberally Administered.

(1) The remedies provided by this Act shall be liberally administered to the end that the aggrieved party may be put in as good a position as if the other party had fully performed but neither consequential or special nor penal damages may be had except as specifically provided in this Act or by other rule of law.

(2) Any right or obligation declared by this Act is enforceable by action unless the provisions declaring it specifies a different and limited effect.

Section 1—107. Waiver or Renunciation of Claim or Right After Breach.

Any claim or right arising out of an alleged breach can be discharged in whole or in part without consideration by a written waiver or renunciation signed and delivered by the aggrieved party.

Section 1—108. Severability.

If any provision or clause of this Act or application thereof to any person or circumstances is held invalid, such invalidity shall not affect other provisions or applications of the Act which can be given effect without the invalid provision or application, and to this end the provisions of this Act are declared to be severable.

Section 1—109. Section Captions.

Section captions are parts of this Act.

PART 2  
GENERAL DEFINITIONS AND  
PRINCIPLES OF  
INTERPRETATION

Section 1—201. General Definitions. Subject to additional definitions contained in the subsequent Articles of this Act which are applicable to specific Articles or Parts thereof, and unless the context otherwise requires, in this Act:

(1) "Action" in the sense of a judicial proceeding includes recoupment, counterclaim, set-off, suit in equity and any other proceedings in which rights are determined.

(2) "Aggrieved party" means a party entitled to resort to a remedy.

(3) "Agreement" means the bargain of the parties in fact as found in their language or by implication from other circumstances including course of dealing or usage of trade or course of performance as provided in this Act (Sections 1—205 and 2—208). Whether an agreement has legal consequences is determined by the provisions of this Act, if applicable; otherwise by the law of contracts (Section 1—103). (Compare "Contract.")

(4) "Bank" means any person engaged in the business of banking.

(5) "Bearer" means the person in possession of an instrument, document of title, or security payable to bearer or indorsed in blank.

(6) "Bill of lading" means a document evidencing the receipt of goods for shipment issued by a person engaged in the business of transporting or forwarding goods, and includes an airbill. "Airbill" means a document serving for air transportation as a bill of lading does for marine or rail transportation, and includes an air consignment note or air waybill.

(7) "Branch" includes a separately incorporated foreign branch of a bank.

(8) "Burden of establishing" a fact means the burden of persuading the triers of fact that the existence of the fact is more probable than its non-existence.

(9) "Buyer in ordinary course of business" means a person who in good faith and without knowledge that the sale to him is in violation of the ownership rights or security interest of a third party in the goods buys in ordinary course from a person in the business of selling goods of that kind but does not include a pawnbroker.

"Buying" may be for cash or by exchange of other property or on secured or unsecured credit and includes receiving goods or documents of title under a pre-existing contract for sale but does not include a transfer in bulk or as security for or in total or partial satisfaction of a money debt.

(10) "Conspicuous": A term or clause is conspicuous when it is so written that a reasonable person against whom it is to operate ought to have noticed it. A printed heading in Capitals (as: NON-NEGOTIABLE BILL OF LADING) is conspicuous. Language in the body of a form is "conspicuous" if it is in larger or other contrasting type or color. But in a telegram any stated term is "conspicuous." Whether a term or clause is "conspicuous" or not is for decision by the court.

(11) "Contract" means the total legal obligation which results from the parties' agreement as affected by this Act and any other applicable rules of law. (Compare "Agreement.")

(12) "Creditor" includes a general creditor, a secured creditor, a lien creditor and any representative of creditors, including an assignee for the benefit of creditors, a trustee in bankruptcy, a receiver in equity and an executor or administrator of an insolvent debtor's or assignor's estate.

(13) "Defendant" includes a person in the position of defendant in a cross-action or counterclaim.

(14) "Delivery" with respect to instruments, documents of title, chattel paper or securities means voluntary transfer of possession.

(15) "Document of title" includes bill of lading, dock warrant, receipt, warehouse receipt or order for the delivery of goods, and also any other document which in the regular course of business or financing is treated as adequately evidencing that the person in possession of it is entitled to receive, hold and dispose of the document and the goods it covers. To be a document of title a document must purport to be issued by or addressed to a bailee and purport to cover goods in the bailee's possession which are either identified or are fungible portions of an identified mass.

(16) "Fault" means wrongful act, omission or breach.

(17) "Fungible" with respect to goods or securities means goods or securities of which any unit is, by

nature or usage of trade, the equivalent of any other like unit. Goods which are not fungible shall be deemed fungible for the purposes of this Act to the extent that under a particular agreement or document unlike units are treated as equivalents.

(18) "Genuine" means free of forgery or counterfeiting.

(19) "Good faith" means honesty in fact in the conduct or transaction concerned.

(20) "Holder" means a person who is in possession of a document of title or an instrument or an investment security drawn, issued or indorsed to him or to his order or to bearer or in blank.

(21) To "honor" is to pay or to accept and pay, or where a credit so engages to purchase or discount a draft complying with the terms of the credit.

(22) "Insolvency proceedings" includes any assignment for the benefit of creditors or other proceedings intended to liquidate or rehabilitate the estate of the person involved.

(23) A person is "insolvent" who either has ceased to pay his debts in the ordinary course of business or cannot pay his debts as they become due or is insolvent within the meaning of the federal bankruptcy law.

(24) "Money" means a medium of exchange authorized or adopted by a domestic or foreign government as a part of its currency.

(25) A person has "notice" of a fact when

(a) he has actual knowledge of it; or

(b) he has received a notice or notification of it; or

(c) from all the facts and circumstances known to him at the time in question he has reason to know that it exists.

A person "knows" or has "knowledge" of a fact when he has actual knowledge of it. "Discover" or "learn" or a word or phrase of similar import refers to knowledge rather than to reason to know. The time and circumstances under which a notice or notification may cease to be effective are not determined by this Act.

(26) A person "notifies" or "gives" a notice or notification to another by taking such steps as may be reasonably required to inform the other in ordinary course whether or not such other actually comes to know of it. A person "receives" a notice or notification when

(a) it comes to his attention; or

(b) it is duly delivered at the place of business through which the contract was made or at any other place held out by him as the place for receipt of such communications.

(27) Notice, knowledge or a notice or notification received by an organization is effective for a particular transaction from the time when it is brought to the attention of the individual conducting that transaction, and in any event from the time when it would have been brought to his attention if the organization had exercised due diligence. An organization exercises due diligence if it maintains reasonable routines for communicating significant information to the person conducting the transaction and there is reasonable compliance with the routines. Due diligence does not require an individual acting for the organization to communicate information unless such communication is part of his regular duties or unless he has reason to know of the transaction and that the transaction would be materially affected by the information.

(28) "Organization" includes a corporation, government or governmental subdivision or agency, business trust, estate, trust, partnership or association, two or more persons having a joint or common interest, or any other legal or commercial entity.

(29) "Party," as distinct from "third party," means a person who has engaged in a transaction or made an agreement within this Act.

(30) "Person" includes an individual or an organization (See Section 1—102).

(31) "Presumption" or "presumed" means that the trier of fact must find the existence of the fact presumed unless and until evidence is introduced which would support a finding of its non-existence.

(32) "Purchase" includes taking by sale, discount, negotiation, mortgage, pledge, lien, issue or re-issue, gift or any other voluntary transaction creating an interest in property.

(33) "Purchaser" means a person who takes by purchase.

(34) "Remedy" means any remedial right to which an aggrieved party is entitled with or without resort to a tribunal.

(35) "Representative" includes an agent, an officer of a corporation or association, and a trustee, executor or administrator of an estate, or any



other person empowered to act for another.

(36) "Rights" includes remedies.

(37) "Security interest" means an interest in personal property or fixtures which secures payment or performance of an obligation. The retention or reservation of title by a seller of goods notwithstanding shipment or delivery to the buyer (Section 2—401) is limited in effect to a reservation of a "security interest." The term also includes any interest of a buyer of accounts, chattel paper, or contract rights which is subject to Article 9. The special property interest of a buyer of goods on identification of such goods to a contract for sale under Section 2—401 is not a "security interest," but a buyer may also acquire a "security interest" by complying with Article 9. Unless a lease or consignment is intended as security, reservation of title thereunder is not a "security interest" but a consignment is in any event subject to the provisions on consignment sales (Section 2—326). Whether a lease is intended as security is to be determined by the facts of each case; however, (a) the inclusion of an option to purchase does not of itself make the lease one intended for security, and (b) an agreement that upon compliance with the terms of the lease the lessee shall become or has the option to become the owner of the property for no additional consideration or for a nominal consideration does make the lease one intended for security.

(38) "Send" in connection with any writing or notice means to deposit in the mail or deliver for transmission by any other usual means of communication with postage or cost of transmission provided for and properly addressed and in the case of an instrument to an address specified thereon or otherwise agreed, or if there be none to any address reasonable under the circumstances. The receipt of any writing or notice within the time at which it would have arrived if properly sent has the effect of a proper sending.

(39) "Signed" includes any symbol executed or adopted by a party with present intention to authenticate a writing.

(40) "Surety" includes a guarantor.

(41) "Telegram" includes a message transmitted by radio, teletype,

cable, any mechanical method of transmission, or the like.

(42) "Term" means that portion of an agreement which relates to a particular matter.

(43) "Unauthorized" signature or indorsement means one made without actual, implied or apparent authority and includes a forgery.

(44) "Value." Except as otherwise provided with respect to negotiable instruments and bank collections (Sections 3—303, 4—208 and 4—209) a person gives "value" for rights if he acquires them

(a) in return for a binding commitment to extend credit or for the extension of immediately available credit whether or not drawn upon and whether or not a charge-back is provided for in the event of difficulties in collection; or

(b) as security for or in total or partial satisfaction of a pre-existing claim; or

(c) by accepting delivery pursuant to a pre-existing contract for purchase; or

(d) generally, in return for any consideration sufficient to support a simple contract.

(45) "Warehouse receipt" means a receipt issued by a person engaged in the business of storing goods for hire.

(46) "Written" or "writing" includes printing, typewriting or any other intentional reduction to tangible form.

Section 1—202. Prima Facie Evidence by Third Party Documents.

A document in due form purporting to be a bill of lading, policy or certificate of insurance, official weigher's or inspector's certificate, consular invoice, or any other document authorized or required by the contract to be issued by a third party shall be prima facie evidence of its own authenticity and genuineness and of the facts stated in the document by the third party.

Section 1—203. Obligation of Good Faith.

Every contract or duty within this Act imposes an obligation of good faith in its performance or enforcement.

Section 1—204. Time; Reasonable Time: "Seasonably."

(1) Whenever this Act requires any action to be taken within a reasonable time, any time which is not manifestly unreasonable may be fixed by agreement.

(2) What is a reasonable time for taking any action depends on the na-

ture, purpose and circumstance of such action.

(3) An action is taken "seasonably" when it is taken at or within the time agreed or if no time is agreed at or within a reasonable time.

Section 1—205. Course of Dealing and Usage of Trade.

(1) A course of dealing is a sequence of previous conduct between the parties to a particular transaction which is fairly to be regarded as establishing a common basis of understanding for interpreting their expressions and other conduct.

(2) A usage of trade is any practice or method of dealing having such regularity of observance in a place, vocation or trade as to justify an expectation that it will be observed with respect to the transaction in question. The existence and scope of such a usage are to be proved as facts. If it is established that such a usage is embodied in a written trade code or similar writing the interpretation of the writing is for the court.

(3) A course of dealing between parties and any usage of trade in the vocation or trade in which they are engaged or of which they are or should be aware give particular meaning to and supplement or qualify terms of an agreement.

(4) The express terms of an agreement and an applicable course of dealing or usage of trade shall be construed wherever reasonable as consistent with each other; but when such construction is unreasonable express terms control both course of dealing and usage of trade and course of dealing controls usage of trade.

(5) An applicable usage of trade in the place where any part of performance is to occur shall be used in interpreting the agreement as to that part of the performance.

(6) Evidence of a relevant usage of trade offered by one party is not admissible unless and until he has given the other party such notice as the court finds sufficient to prevent unfair surprise to the latter.

Section 1—206. Statute of Frauds for Kinds of Personal Property Not Otherwise Covered.

(1) Except in the cases described in subsection (2) of this section a contract for the sale of personal property is not enforceable by way of action or defense beyond five thousand dollars in amount or value of remedy unless there is some writing which indicates that a contract for sale has been made

between the parties at a defined or stated price, reasonably identifies the subject matter, and is signed by the party against whom enforcement is sought or by his authorized agent.

(2) Subsection (1) of this section does not apply to contracts for the sale of goods (Section 2—201) nor of securities (Section 8—319) nor to security agreements (Section 9—203).

Section 1—207. Performance or Acceptance Under Reservation of Rights.

A party who with explicit reservation of rights performs or promises performance or assents to performance in a manner demanded or offered by the other party does not thereby prejudice the rights reserved. Such words as "without prejudice," "under protest" or the like are sufficient.

Section 1—208. Option to Accelerate at Will.

A term providing that one party or his successor in interest may accelerate payment or performance or require collateral or additional collateral "at will" or "when he deems himself insecure" or in words of similar import shall be construed to mean that he shall have power to do so only if he in good faith believes that the prospect of payment or performance is impaired. The burden of establishing lack of good faith is on the party against whom the power has been exercised.

## ARTICLE 2

### SALES

#### PART 1

#### SHORT TITLE, GENERAL CONSTRUCTION AND SUBJECT MATTER

Section 2—101. Short Title.

This Article shall be known and may be cited as Uniform Commercial Code—Sales.

Section 2—102. Scope; Certain Security and Other Transactions Excluded From This Article.

Unless the context otherwise requires, this Article applies to transactions in goods; it does not apply to any transaction which although in the form of an unconditioned contract to sell or present sale is intended to operate only as a security transaction nor does this Article impair or repeal any statute regulating sales to consumers, farmers or other specified classes of buyers.

Section 2—103. Definitions and Index of Definitions.

(1) In this Article unless the context otherwise requires

(a) "Buyer" means a person who buys or contracts to buy goods.

(b) "Good faith" in the case of merchant means honesty in fact and the observance of reasonable commercial standards of fair dealing in the trade.

(c) "Receipt" of goods means taking physical possession of them.

(d) "Seller" means a person who sells or contracts to sell goods.

(2) Other definitions applying to this Article or to specified Parts thereof, and the sections in which they appear are:

"Acceptance." Section 2—606.

"Banker's credit." Section 2—325.

"Between merchants." Section 2—104.

"Cancellation." Section 2—106(4).

"Commercial unit." Section 2—105.

"Confirmed credit." Section 2—325.

"Conforming to contract." Section 2—106.

"Contract for sale." Section 2—106.

"Cover." Section 2—712.

"Entrusting." Section 2—403.

"Financing agency." Section 2—104.

"Future goods." Section 2—105.

"Goods." Section 2—105.

"Identification." Section 2—501.

"Installment contract." Section 2—612.

"Letter of Credit." Section 2—325.

"Lot." Section 2—105.

"Merchant." Section 2—104.

"Overseas." Section 2—323.

"Person in position of seller." Section 2—707.

"Present sale." Section 2—106.

"Sale." Section 2—106.

"Sale on approval." Section 2—326.

"Sale or return." Section 2—326.

"Termination." Section 2—106.

(3) The following definitions in other Articles apply to this Article:

"Check." Section 3—104.

"Consignee." Section 7—102.

"Consignor." Section 7—102.

"Consumer goods." Section 9—109.

"Dishonor." Section 3—507.

"Draft." Section 3—104.

(4) In addition Article 1 contains general definitions and principles of construction and interpretation applicable throughout this Article.

Section 2—104. Definitions. "Merchant"; "Between Merchants"; "Financing Agency."

(1) "Merchant" means a person who deals in goods of the kind or otherwise by his occupation holds himself out as having knowledge or

skill peculiar to the practices or goods involved in the transaction or to whom such knowledge or skill may be attributed by his employment of an agent or broker or other intermediary who by his occupation holds himself out as having such knowledge or skill.

(2) "Financing agency" means a bank, finance company or other person who in the ordinary course of business makes advances against goods or documents of title or who by arrangement with either the seller or the buyer intervenes in ordinary course to make or collect payment due or claimed under the contract for sale, as by purchasing or paying the seller's draft or making advances against it or by merely taking it for collection whether or not documents of title accompany the draft. "Financing agency" includes also a bank or other person who similarly intervenes between persons who are in the position of seller and buyer in respect to the goods (Section 2—707).

(3) "Between merchants" means in any transaction with respect to which both parties are chargeable with the knowledge or skill of merchants.

Section 2—105. Definitions: Transferability; "Goods"; "Future" Goods; "Lot"; "Commercial Unit."

(1) "Goods" means all things (including specially manufactured goods) which are movable at the time of identification to the contract for sale other than the money in which the price is to be paid, investment securities (Article 8) and things in action. "Goods" also includes the unborn young of animals and growing crops and other identified things attached to realty as described in the section on goods to be severed from realty (Section 2—107).

(2) Goods must be both existing and identified before any interest in them can pass. Goods which are not both existing and identified are "future" goods. A purported present sale of future goods or of any interest therein operates as a contract to sell.

(3) There may be a sale of a part interest in existing identified goods.

(4) An undivided share in an identified bulk of fungible goods is sufficiently identified to be sold although the quantity of the bulk is not determined. Any agreed proportion of such a bulk or any quantity thereof agreed upon by number, weight or other measure may to the extent of the seller's interest in the bulk be

sold to the buyer who then becomes an owner in common.

(5) "Lot" means a parcel or a single article which is the subject matter of a separate sale or delivery, whether or not it is sufficient to perform the contract.

(6) "Commercial unit" means such a unit of goods as by commercial usage is a single whole for purposes of sale and division of which materially impairs its character or value on the market or in use. A commercial unit may be a single article (as a machine) or a set of articles (as a suite of furniture or an assortment of sizes) or a quantity (as a bale, gross, or carload) or any other unit treated in use or in the relevant market as a single whole.

Section 2—106. Definitions. "Contract"; "Agreement"; "Contract for Sale"; "Sale"; "Present Sale"; "Conforming" to Contract; "Termination"; "Cancellation."

(1) In this Article unless the context otherwise requires "contract" and "agreement" are limited to those relating to the present or future sale of goods. "Contract for sale" includes both a present sale of goods and a contract to sell goods at a future time. A "sale" consists in the passing of title from the seller to the buyer for a price (Section 2—401). A "present sale" means a sale which is accomplished by the making of the contract.

(2) Goods or conduct including any part of a performance are "conforming" or conform to the contract when they are in accordance with the obligations under the contract.

(3) "Termination" occurs when either party pursuant to a power created by agreement or law puts an end to the contract otherwise than for its breach. On "termination" all obligations which are still executory on both sides are discharged but any right based on prior breach or performance survives.

(4) "Cancellation" occurs when either party puts an end to the contract for breach by the other and its effect is the same as that of "termination" except that the cancelling party also retains any remedy for breach of the whole contract or any unperformed balance.

Section 2—107. Goods to Be Severed From Realty: Recording.

(1) A contract for the sale of timber, minerals or the like or a structure or its materials to be removed from realty is a contract for the sale

of goods within this Article if they are to be severed by the seller but until severance a purported present sale thereof which is not effective as a transfer for an interest in land is effective only as a contract to sell.

(2) A contract for the sale apart from the land of growing crops or other things attached to realty and capable of severance without material harm thereto but not described in subsection (1) is a contract for the sale of goods within this Article whether the subject matter is to be severed by the buyer or by the seller even though it forms part of the realty at the time of contracting, and the parties can by identification effect a present sale before severance.

(3) The provisions of this section are subject to any third party rights provided by the law relating to realty records, and the contract for sale may be executed and recorded as a document transferring an interest in land and shall then constitute notice to third parties of the buyer's rights under the contract for sale.

## PART 2

### FORM, FORMATION AND READJUSTMENT OF CONTRACT

Section 2—201. Formal Requirements; Statute of Frauds.

(1) Except as otherwise provided in this section a contract for the sale of goods for the price of \$500 or more is not enforceable by way of action or defense unless there is some writing sufficient to indicate that a contract for sale has been made between the parties and signed by the party against whom enforcement is sought or by his authorized agent or broker. A writing is not insufficient because it omits or incorrectly states a term agreed upon but the contract is not enforceable under this paragraph beyond the quantity of goods shown in such writing.

(2) Between merchants if within a reasonable time a writing in confirmation of the contract and sufficient against the sender is received and the party receiving it has reason to know its contents, it satisfies the requirements of subsection (1) against such party unless written notice of objection to its contents is given within ten days after it is received.

(3) A contract which does not satisfy the requirements of subsection

(1) but which is valid in other respects is enforceable

(a) if the goods are to be specially manufactured for the buyer and are not suitable for sale to others in the ordinary course of the seller's business and the seller, before notice of repudiation is received and under circumstances which reasonably indicate that the goods are for the buyer, has made either a substantial beginning of their manufacture or commitments for their procurement; or

(b) if the party against whom enforcement is sought admits in his pleading, testimony or otherwise in court that a contract for sale was made, but the contract is not enforceable under this provision beyond the quantity of goods admitted; or

(c) with respect to goods for which payment has been made and accepted or which have been received and accepted (Sec. 2—606).

Section 2—202. Final Written Expression: Parol or Extrinsic Evidence.

Terms with respect to which the confirmatory memoranda of the parties agree or which are otherwise set forth in a writing intended by the parties as a final expression of their agreement with respect to such terms as are included therein may not be contradicted by evidence of any prior agreement or of a contemporaneous oral agreement but may be explained or supplemented

(a) by course of dealing or usage of trade (Section 1—205) or by course of performance (Section 2—208); and

(b) by evidence of consistent additional terms unless the court finds the writing to have been intended also as a complete and exclusive statement of the terms of the agreement.

Section 2—203. Seals Inoperative.

The affixing of a seal to a writing evidencing a contract for sale or an offer to buy or sell goods does not constitute the writing a sealed instrument and the law with respect to sealed instruments does not apply to such a contract or offer.

Section 2—204. Formation in General.

(1) A contract for sale of goods may be made in any manner sufficient to show agreement, including conduct by both parties which recognizes the existence of such a contract.

(2) An agreement sufficient to constitute a contract for sale may be

found even though the moment of its making is undetermined.

(3) Even though one or more terms are left open a contract for sale does not fail for indefiniteness if the parties have intended to make a contract and there is a reasonably certain basis for giving an appropriate remedy.

Section 2—205. Firm Offers.

An offer by a merchant to buy or sell goods in a signed writing which by its terms gives assurance that it will be held open is not revocable, for lack of consideration, during the time stated or if no time is stated for a reasonable time, but in no event may such period of irrevocability exceed three months; but any such term of assurance on a form supplied by the offeree must be separately signed by the offeror.

Section 2—206. Offer and Acceptance in Formation of Contract.

(1) Unless otherwise unambiguously indicated by the language or circumstances

(a) an offer to make a contract shall be construed as inviting acceptance in any manner and by any medium reasonable in the circumstances;

(b) an order or other offer to buy goods for prompt or current shipment shall be construed as inviting acceptance either by a prompt promise to ship or by the prompt or current shipment of conforming or non-conforming goods, but such a shipment of non-conforming goods does not constitute an acceptance if the seller seasonably notifies the buyer that the shipment is offered only as an accommodation to the buyer.

(2) Where the beginning of a requested performance is a reasonable mode of acceptance an offeror who is not notified of acceptance within a reasonable time may treat the offer as having lapsed before acceptance.

Section 2—207. Additional Terms in Acceptance or Confirmation.

(1) A definite and seasonable expression of acceptance or a written confirmation which is sent within a reasonable time operates as an acceptance even though it states terms additional to or different from those offered or agreed upon, unless acceptance is expressly made conditional on assent to the additional or different terms.

(2) The additional terms are to be construed as proposals for addition to

to the contract. Between merchants such terms become part of the contract unless:

- (a) the offer expressly limits acceptance to the terms of the offer;
- (b) they materially alter it; or
- (c) notification of objection to them has already been given or is given within a reasonable time after notice of them is received.

(3) Conduct by both parties which recognizes the existence of a contract is sufficient to establish a contract for sale although the writings of the parties do not otherwise establish a contract. In such case the terms of the particular contract consist of those terms on which the writings of the parties agree, together with any supplementary terms incorporated under any other provisions of this Act.

Section 2—208. Course of Performance or Practical Construction.

(1) Where the contract for sale involves repeated occasions for performance by either party with knowledge of the nature of the performance and opportunity for objection to it by the other, any course of performance accepted or acquiesced in without objection shall be relevant to determine the meaning of the agreement.

(2) The express terms of the agreement and any such course of performance, as well as any course of dealing and usage of trade, shall be construed whenever reasonable as consistent with each other; but when such construction is unreasonable, express terms shall control course of performance and course of performance shall control both course of dealing and usage of trade (Section 1—205).

(3) Subject to the provisions of the next section on modification and waiver, such course of performance shall be relevant to show a waiver or modification of any term inconsistent with such course of performance.

Section 2—209. Modification, Rescission and Waiver.

(1) An agreement modifying a contract within this Article needs no consideration to be binding.

(2) A signed agreement which excludes modification or rescission except by a signed writing cannot be otherwise modified or rescinded, but except as between merchants such a requirement on a form supplied by the merchant must be separately signed by the other party.

(3) The requirements of the statute of frauds section of this Article (Section 2—201) must be satisfied if the contract as modified is within its provisions.

(4) Although an attempt at modification or rescission does not satisfy the requirements of subsection (2) or (3) it can operate as a waiver.

(5) A party who has made a waiver affecting an executory portion of the contract may retract the waiver by reasonable notification received by the other party that strict performance will be required of any term waived, unless the retraction would be unjust in view of a material change of position in reliance on the waiver.

Section 2—210. Delegation of Performance; Assignment of Rights.

(1) A party may perform his duty through a delegate unless otherwise agreed or unless the other party has a substantial interest in having his original promisor perform or control the acts required by the contract. No delegation of performance relieves the party delegating of any duty to perform or any liability for breach.

(2) Unless otherwise agreed all rights of either seller or buyer can be assigned except where the assignment would materially change the duty of the other party, or increase materially the burden or risk imposed on him by his contract, or impair materially his chance of obtaining return performance. A right to damages for breach of the whole contract or a right arising out of the assignor's due performance of his entire obligation can be assigned despite agreement otherwise.

(3) Unless the circumstances indicate the contrary a prohibition of assignment of "the contract" is to be construed as barring only the delegation to the assignee of the assignor's performance.

(4) An assignment of "the contract" or of "all my rights under the contract" or an assignment in similar general terms is an assignment of rights and unless the language or the circumstances (as in an assignment for security) indicate the contrary, it is a delegation of performance of the duties of the assignor and its acceptance by the assignee constitutes a promise by him to perform those duties. This promise is enforceable by either the assignor or the other party to the original contract.

(5) The other party may treat any assignment which delegates performance as creating reasonable grounds for insecurity and may without prejudice to his rights against the assignor demand assurances from the assignee (Section 2—609).

### PART 3

## GENERAL OBLIGATION AND CONSTRUCTION OF CONTRACT

### Section 2—301. General Obligations of Parties.

The obligation of the seller is to transfer and deliver and that of the buyer is to accept and pay in accordance with the contract.

### Section 2—302. Unconscionable Contract or Clause.

(1) If the court as a matter of law finds the contract or any clause of the contract to have been unconscionable at the time it was made the court may refuse to enforce the contract, or it may enforce the remainder of the contract without the unconscionable clause, or it may so limit the application of any unconscionable clause as to avoid any unconscionable result.

(2) When it is claimed or appears to the court that the contract or any clause thereof may be unconscionable the parties shall be afforded a reasonable opportunity to present evidence as to its commercial setting, purpose and effect to aid the court in making the determination.

### Section 2—303. Allocation or Division of Risks.

Where this Article allocates a risk or a burden as between the parties "unless otherwise agreed," the agreement may not only shift the allocation but may also divide the risk or burden.

### Section 2—304. Price Payable in Money, Goods, Realty, or Otherwise.

(1) The price can be made payable in money or otherwise. If it is payable in whole or in part in goods each party is a seller of the goods which he is to transfer.

(2) Even though all or part of the price is payable in an interest in realty the transfer of the goods and the seller's obligations with reference to them are subject to this Article, but not the transfer of the interest in realty or the transferor's obligations in connection therewith.

### Section 2—305. Open Price Term.

(1) The parties if they so intend can conclude a contract for sale even though the price is not settled. In

such a case the price is a reasonable price at the time for delivery if

(a) nothing is said as to price; or

(b) The price is left to be agreed by the parties and they fail to agree; or

(c) the price is to be fixed in terms of some agreed market or other standard as set or recorded by a third person or agency and it is not so set or recorded.

(2) A price to be fixed by the seller or by the buyer means a price for him to fix in good faith.

(3) When a price is left to be fixed otherwise than by agreement of the parties fails to be fixed through fault of one party the other may at his option treat the contract as cancelled or himself fix a reasonable price.

(4) Where, however, the parties intend not to be bound unless the price be fixed or agreed and it is not fixed or agreed there is no contract. In such a case the buyer must return any goods already received or if unable so to do must pay their reasonable value at the time of delivery and the seller must return any portion of the price paid on account.

### Section 2—306. Output, Requirements and Exclusive Dealings.

(1) A term which measures the quantity by the output of the seller or the requirements of the buyer means such actual output or requirements as may occur in good faith, except that no quantity unreasonably disproportionate to any stated estimate or in the absence of a stated estimate to any normal or otherwise comparable prior output or requirements may be tendered or demanded.

(2) A lawful agreement by either the seller or the buyer for exclusive dealing in the kind of goods concerned imposes unless otherwise agreed an obligation by the seller to use best efforts to supply the goods and by the buyer to use best efforts to promote their sale.

### Section 2—307. Delivery in Single Lot or Several Lots.

Unless otherwise agreed all goods called for by a contract for sale must be tendered in a single delivery and payment is due only on such tender but where the circumstances give either party the right to make or demand delivery in lots the price if it can be apportioned may be demanded for each lot.

### Section 2—308. Absence of Specified Place for Delivery.

Unless otherwise agreed

(a) the place for delivery of goods is the seller's place of business or if he has none his residence; but

(b) in a contract for sale of identified goods which to the knowledge of the parties at the time of contracting are in some other place, that place is the place for their delivery; and

(c) documents of title may be delivered through customary banking channels.

Section 2—309. Absence of Specific time Provisions; Notice of Termination.

(1) The time for shipment or delivery or any other action under a contract if not provided in this Article or agreed upon shall be a reasonable time.

(2) Where the contract provides for successive performances but is indefinite in duration it is valid for a reasonable time but unless otherwise agreed may be terminated at any time by either party.

(3) Termination of a contract by one party except on the happening of an agreed event requires that reasonable notification be received by the other party and an agreement dispensing with notification is invalid if its operation would be unconscionable.

Section 2—310. Open Time for Payments or Running of Credit; Authority to Ship Under Reservation.

Unless otherwise agreed

(a) payment is due at the time and place at which the buyer is to receive the goods even though the place of shipment is the place of delivery; and

(b) if the seller is authorized to send the goods he may ship them under reservation, and may tender the documents of title, but the buyer may inspect the goods after their arrival before payment is due unless such inspection is inconsistent with the terms of the contract (Section 2—513); and

(c) if delivery is authorized and made by way of documents of title otherwise than by subsection (b) then payment is due at the time and place at which the buyer is to receive the documents regardless of where the goods are to be received; and

(d) where the seller is required or authorized to ship the goods on credit the credit period runs from the time of the shipment but post-dating the invoice or delaying its dispatch will correspondingly delay the starting of the credit period.

Section 2—311. Options and Cooperation Respecting Performance.

(1) An agreement for sale which is otherwise sufficiently definite (subsection (3) of Section 2—204) to a contract is not made invalid by the fact that it leaves particulars of performance to be specified by one of the parties. Any such specification must be made in good faith and within limits set by commercial reasonableness.

(2) Unless otherwise agreed specifications relating to assortment of the goods are at the buyer's option and except as otherwise provided in subsections (1)(c) and (3) of Section 2—319 specifications or arrangements relating to shipment are at the seller's option.

(3) Where such specification would materially affect the other party's performance but is not seasonably made or where one party's cooperation is necessary to the agreed performance of the other but is not seasonably forthcoming, the other party in addition to all other remedies

(a) is excused for any resulting delay in his own performance; and

(b) may also either proceed to perform in any reasonable manner or after the time for a material part of his own performance treat the failure to specify or to cooperate as a breach by failure to deliver or accept the goods.

Section 2—312. Warranty of Title and Against Infringement; Buyer's Obligation Against Infringement.

(1) Subject to subsection (2) there is in a contract for sale a warranty by the seller that

(a) the title conveyed shall be good, and its transfer rightful; and

(b) the goods shall be delivered free from any security interest or other lien or encumbrance of which the buyer at the time of contracting has no knowledge.

(2) A warranty under subsection

(1) will be excluded or modified only by specific language or by circumstances which give the buyer reason to know that the person selling does not claim title in himself or that he is purporting to sell only such right or title as he or a third person may have.

(3) Unless otherwise agreed a seller who is a merchant regularly dealing in goods of the kind warrants that the goods shall be delivered free



of the rightful claim of any third person by way of infringement or the like but a buyer who furnishes specifications to the seller must hold the seller harmless against any such claim which arise out of compliance with the specifications.

Section 2—313. Express Warranties by Affirmation, Promise, Description, Sample.

(1) Express warranties by the seller are created as follows:

(a) Any affirmation of fact or promise made by the seller to the buyer which relates to the goods and becomes part of the basis of the bargain creates an express warranty that the goods shall conform to the affirmation or promise.

(b) Any description of the goods which is made part of the basis of the bargain creates an express warranty that the goods shall conform to the description.

(c) Any sample or model which is made part of the basis of the bargain creates an express warranty that the whole of the goods shall conform to the sample or model.

(2) It is not necessary to the creation of an express warranty that the seller use formal words such as "warranty" or "guarantee" or that he have a specific intention to make a warranty, but an affirmation merely of the value of the goods or a statement purporting to be merely the seller's opinion or commendation of the goods does not create a warranty.

Section 2—314. Implied Warranty: Merchantability; Usage of Trade.

(1) Unless excluded or modified (Section 2—316), a warranty that the goods shall be merchantable is implied in a contract for their sale if the seller is a merchant with respect to goods of that kind. Under this section the serving for value of food or drink to be consumed either on the premises or elsewhere is a sale.

(2) Goods to be merchantability must be at least such as

(a) pass without objection in the trade under the contract description; and

(b) in the case of fungible goods, are of fair average quality within the description; and

(c) are fit for the ordinary purposes for which such goods are used; and

(d) run within the variations per-

mitted by the agreement, of even kind, quality and quantity within each unit and among all units involved; and

(e) are adequately contained, packaged, and labeled as the agreement may require; and

(f) conform to the promises or affirmations of fact made on the container or label if any.

(3) Unless excluded or modified (Section 2—316) other implied warranties may arise from course of dealing or usage of trade.

Section 2—315. Implied Warranty: Fitness for Particular Purposes.

Where the seller at the time of contracting has reason to know any particular purpose for which the goods are required and that the buyer is relying on the seller's skill or judgment to select or furnish suitable goods, there is unless excluded or modified under the next section an implied warranty that the goods shall be fit for such purposes.

Section 2—316. Exclusion or Modification of Warranties.

(1) Words or conduct relevant to the creation of an express warranty and words or conduct tending to negate or limit warranty shall be construed wherever reasonable as consistent with each other; but subject to provisions of this Article on parol or extrinsic evidence (Section 2—202) negation or limitation is inoperative to the extent that such construction is unreasonable.

(2) Subject to subsection (3), to exclude or modify the implied warranty of merchantability or any part of it the language must mention merchantability and in case of a writing must be conspicuous, and to exclude or modify any implied warranty of fitness the exclusion must be by a writing and conspicuous. Language to exclude all implied warranties of fitness is sufficient if it states, for example, that "There are no warranties which extend beyond the description on the face hereof."

(3) Notwithstanding subsection (2)

(a) unless the circumstances indicate otherwise, all implied warranties are excluded by expressions like "as is," "with all faults" or other language which in common understanding calls the buyer's attention to the exclusion of warranties and makes plain that there is no implied warranty; and

(b) when the buyer before entering into the contract has examined the goods or the sample or model as fully as he desired or has refused to examine the goods there is no implied warranty with regard to defects which an examination ought in the circumstances to have revealed to him; and

(c) an implied warranty can also be excluded or modified by course of dealing or course of performance or usage of trade.

(4) Remedies for breach of warrant can be limited in accordance with the provisions of this Article on liquidation or limitation of damages and on contractual modification of remedy (Section 2—718 and 2—719).

Section 2—317. Cumulation and Conflict of Warranties Express or Implied.

Warranties whether express or implied shall be construed as consistent with each other and as cumulative, but if such construction is unreasonable the intention of the parties shall determine which warranty is dominant. In ascertaining that intention the following rules apply:

(a) Exact or technical specifications displace an inconsistent sample or model or general language of description.

(b) A sample from an existing bulk displaces inconsistent general language of description.

(c) Express warranties displace inconsistent implied warranties other than an implied warranty of fitness for a particular purpose.

Section 2—318. Article Neutral on Question of Third Party Beneficiaries of Warranties of Quality and on Need for privity of Contract.

This Article does not provide whether any one other than a buyer may take advantage of an express or implied warranty of quality made to the buyer or whether the buyer or anyone entitled to take advantage of a warranty made to the buyer may sue a third party other than the immediate seller for deficiencies in the quality of the goods. These matters are left to the courts for their determination.

Section 2—319. F.O.B. and F.A.S. Terms.

(1) Unless otherwise agreed the term F.O.B. (which means "free on board") at a named place, even though used only in connection with

the stated price, is a delivery term under which

(a) when the term is F.O.B. the place of shipment, the seller must at that place ship the goods in the manner provided in this Article (Section 2—504) and bear the expense and risk of putting them into the possession of the carrier; or

(b) when the term is F.O.B. the place of destination, the seller must at his own expense and risk transport the goods to that place and there tender delivery of them in the manner provided in this Article (Section 2—503);

(c) when under either (a) or (b) the term is also F.O.B. vessel, car or other vehicle, the seller must in addition at his own expense and risk load the goods on board. If the term is F.O.B. vessel the buyer must name the vessel and in an appropriate case the seller must comply with the provisions of this Article on the form of bill of lading (Section 2—323).

(2) Unless otherwise agreed the term F.A.S. vessel (which means "free alongside") at a named port, even though used only in connection with the stated price, is a delivery term under which the seller must

(a) at his own expense and risk deliver the goods alongside the vessel in the manner usual in that port or on a dock designated and provided by the buyer; and

(b) obtain and tender a receipt for the goods in exchange for which the carrier is under a duty to issue a bill of lading.

(3) Unless otherwise agreed in any case falling within subsection (1)(a) or (c) or subsection (2) the buyer must seasonably give any needed instructions for making delivery, including when the term is F.A.S. or F.O.B. the loading berth of the vessel and in an appropriate case its name and sailing date. The seller may treat the failure of needed instructions as a failure of cooperation under this Article (Section 2—311). He may also at his option move the goods in any reasonable manner preparatory to delivery or shipment.

(4) Under the term F.O.B. vessel or F.A.S. unless otherwise agreed the buyer must make payment against tender of the required documents and the seller may not tender nor the buyer demand delivery of the goods in substitution for the documents.

Section 2—320. C.I.F. and C. & F. Terms.

(1) The term C.I.F. means that the price includes in a lump sum the cost of the goods and the insurance and freight to the named destination. The term C. & F. or C.F. means that the price so includes cost and freight to the named destination.

(2) Unless otherwise agreed and even though used only in connection with the stated price and destination, the term C.I.F. destination or its equivalent requires the seller at his own expense and risk to

(a) put the goods into the possession of a carrier at the port for shipment and obtain a negotiable bill or bills of lading covering the entire transportation to the named destination; and

(b) load the goods and obtain a receipt from the carrier (which may be contained in the bill of lading) showing that the freight has been paid or provided for; and

(c) obtain a policy or certificate of insurance, including any war risk insurance, of a kind and on terms then current at the port of shipment in the usual amount, in the currency of the contract, shown to cover the same goods covered by the bill of lading and providing for payment of loss to the order of the buyer or for the account of whom it may concern; but the seller may add to the price the amount of the premium for any such war risk insurance; and

(d) prepare an invoice of the goods and procure any other documents required to effect shipment or to comply with the contract; and

(e) forward and tender with commercial promptness all the documents in due form and with any indorsement necessary to perfect the buyer's rights.

(3) Unless otherwise agreed the term C. & F. or its equivalent has the same effect and imposes upon the seller the same obligations and risks as a C.I.F. term except the obligation as to insurance.

(4) Under the term C.I.F. or C. & F. unless otherwise agreed the buyer must make payment against tender of the required documents and the seller may not tender nor the buyer demand delivery of the goods in substitution for the documents.

Section 2—321. C.I.F. or C. & F.: "Net Landed Weights"; "Payment on

Arrival"; Warranty of Condition on Arrival.

Under a contract containing a term C.I.F. or C. & F.

(1) Where the price is based on or is to be adjusted according to "net landed weights"; "delivered weights," "out turn" quantity or quality or the like, unless otherwise agreed the seller must reasonably estimate the price. The payment due on tender of the documents called for by the contract is the amount so estimated, but after final adjustment of the price a settlement must be made with commercial promptness.

(2) An agreement described in subsection (1) or any warranty of quality or condition of the goods on arrival places upon the seller the risk of ordinary deterioration, shrinkage and the like in transportation but has no effect on the place or time of identification to the contract for sale or delivery or on the passing of the risk of loss.

(3) Unless otherwise agreed where the contract provides for payment on or after arrival of the goods the seller must before payment allow such preliminary inspection as is feasible; but if the goods are lost delivery of the documents and payment are due when the goods should have arrived.

Section 2—322. Delivery "Ex-Ship."

(1) Unless otherwise agreed a term for delivery of goods "ex-ship" (which means from the carrying vessel) or in equivalent language is not restricted to a particular ship and requires delivery from a ship which has reached a place at the named port of destination where goods of the kind are usually discharged.

(2) Under such a term unless otherwise agreed

(a) the seller must discharge all liens arising out of the carriage and furnish the buyer with a direction which puts the carrier under a duty to deliver the goods; and

(b) the risk of loss does not pass to the buyer until the goods leave the ship's tackle or are otherwise properly unloaded.

Section 2—323. Form of Bill of Lading Required in Overseas Shipment; "Overseas."

(1) Where the contract contemplates overseas shipment and contains a term C.I.F. or C. & F. or F.O.B. vessel, the seller unless other-

wise agreed must obtain a negotiable bill of lading stating that the goods have been loaded on board or, in the case of a term C.I.F. or C. & F., received for shipment.

(2) Where in a case within subsection (1) a bill of lading has been issued in a set of parts, unless otherwise agreed if the documents are not to be sent from abroad the buyer may demand tender of the full set; otherwise only one part of the bill of lading need be tendered. Even if the agreement expressly requires a full set

(a) due tender of a single part is acceptable within the provisions of this Article on cure of improper delivery subsection (1) of (Section 2—508); and

(b) even though the full set is demanded, if the documents are sent from abroad the person tendering an incomplete set may nevertheless require payment upon furnishing an indemnity which the buyer in good faith deems adequate.

(3) A shipment by water or by air or a contract contemplating such shipment is "overseas" insofar as by usage of trade or agreement it is subject to the commercial, financing or shipping practices characteristic of international deep water commerce.

Section 2—324. "No Arrival, No Sale" Term.

Under a term "no arrival, no sale" or terms of like meaning, unless otherwise agreed,

(a) the seller must properly ship conforming goods and if they arrive by any means he must tender them on arrival but he assumes no obligation that the goods will arrive unless he has caused the non-arrival; and

(b) where without fault of the seller the goods are in part lost or have so deteriorated as no longer to conform to the contract or arrive after the contract time, the buyer may proceed as if there had been casualty to identified goods (Section 2—613).

Section 2—325. "Letter of Credit" Term; "Confirmed Credit."

(1) Failure of the buyer seasonably to furnish an agreed letter of credit is a breach of the contract for sale.

(2) The delivery to seller of a proper letter of credit suspends the buyer's obligation to pay. If the letter of credit is dishonored, the seller may on seasonable notification to the buyer require payment directly from him.

(3) Unless otherwise agreed the

term "letter of credit" or "banker's credit" in a contract for sale means an irrevocable credit issued by a financing agency of good repute and, where the shipment is overseas, of good international repute. The term "confirmed credit" means that the credit must also carry the direct obligation of such an agency which does business in the seller's financial market.

Section 2—326. Sale on Approval and Sale or Return; Consignment Sales and Rights of Creditors.

(1) Unless otherwise agreed, if delivered goods may be returned by the buyer even though they conform to the contract the transaction is

(a) a "sale on approval" if the goods are delivered primarily for use, and

(b) a "sale or return" if the goods are delivered primarily for resale.

(2) Except as provided in subsection (3), goods held on approval are not subject to the claims of the buyer's creditors until acceptance; goods held on sale or return are subject to such claims while in the buyer's possession.

(3) Where goods are delivered to a person for sale and such person maintains a place of business at which he deals in goods of the kind involved, under a name other than the name of the person making delivery, then with respect to claims of creditors of the person conducting the business the goods are deemed to be on sale or return. The provisions of this subsection are applicable even though an agreement purports to reserve title to the person making delivery until payment or resale or uses such words as "on consignment" or "on memorandum." However, this subsection is not applicable if the person making delivery

(a) complies with an applicable law providing for a consignor's interest or the like to be evidenced by a sign, or

(b) establishes that the person conducting the business is generally known by his creditors to be substantially engaged in selling the goods of others, or

(c) complies with the filing provisions of the Article on Secured Transactions (Article 9).

(4) Any "or return" term of a contract for sale is to be treated as a separate contract for sale within the statute of frauds section of this Article (Section 2—201) and as contradicting the sale aspect of the contract

within the provisions of this Article on parol or extrinsic evidence (Section 2—202).

Section 2—327. Special Incidents of Sale on Approval and Sale or Return.

(1) Under a sale on approval unless otherwise agreed

(a) although the goods are identified to the contract the risk of loss and the title do not pass to the buyer until acceptance; and

(b) use of the goods consistent with the purpose of trial is not acceptance but failure seasonably to notify the seller of election to return the goods is acceptance, and if the goods conform to the contract acceptance of any part is acceptance of the whole; and

(c) after due notification of election to return, the return is at the seller's risk and expense but a merchant buyer must follow any reasonable instructions.

(2) Under a sale or return unless otherwise agreed

(a) the option to return extends to the whole or any commercial unit of the goods while in substantially their original condition, but must be exercised seasonably; and

(b) the return is at the buyer's risk and expense.

Section 2—328. Sale by Auction.

(1) In a sale by auction if goods are put up in lots each lot is the subject of a separate sale.

(2) A sale by auction is complete when the auctioneer so announces by the fall of the hammer or in other customary manner. Where a bid is made while the hammer is falling in acceptance of a prior bid the auctioneer may in his discretion reopen the bidding or declare the goods sold under the bid on which the hammer was falling.

(3) Such a sale is with reserve unless the goods are in explicit terms put up without reserve. In an auction with reserve the auctioneer may withdraw the goods at any time until he announces completion of the sale. In an auction without reserve, after the auctioneer calls for bids on an article or lot, that article or lot cannot be withdrawn unless no bid is made within a reasonable time. In either case a bidder may retract his bid until the auctioneer's announcement of completion of the sale, but a bidder's retraction does not revive any previous bid.

(4) If the auctioneer knowingly receives a bid on the seller's behalf or

the seller makes or procures such a bid, and notice has not been given that liberty for such bidding is reserved, the buyer may at his option avoid the sale or take the goods at the price of the last good faith bid prior to the completion of the sale. This subsection shall not apply to any bid at a forced sale.

#### PART 4

#### TITLE, CREDITORS AND GOOD FAITH PURCHASERS

Section 2—401. Passing of Title; Reservation for Security; Limited Application of This Section.

Each provision of this Article with regard to the rights, obligations and remedies of the seller, the buyer, purchasers or other third parties applies irrespective of title to the goods except where the provision refers to such title. Insofar as situations are not covered by the other provisions of this Article and matters concerning title become material the following rules apply:

(1) Title to goods cannot pass under a contract for sale prior to their identification to the contract (Section 2—501), and unless otherwise explicitly agreed the buyer acquires by their identification a special property as limited by this Act. Any retention or reservation by the seller of the title (property) in goods shipped or delivered to the buyer is limited in effect to a reservation of a security interest. Subject to these provisions and to the provisions of the Article on Secured Transactions (Article 9), title to goods passes from the seller to the buyer in any manner and on any conditions explicitly agreed on by the parties.

(2) Unless otherwise explicitly agreed title passes to the buyer at the time and place at which the seller completes his performance with reference to the physical delivery of the goods, despite any reservation of a security interest and even though a document of title is to be delivered at a different time or place; and in particular and despite any reservation of a security interest by the bill of lading

(a) if the contract requires or authorizes the seller to send the goods to the buyer but does not require him to deliver them at destination, title passes to the buyer at the time and place of shipment; but

(b) if the contract requires deliv-

ery at destination, title passes on tender there.

(3) Unless otherwise explicitly agreed where delivery is to be made without moving the goods,

(a) if the seller is to deliver a document of title, title passes at the time when and the place where he delivers such documents; or

(b) if the goods are at the time of contracting already identified and no documents are to be delivered, title passes at the time and place of contracting.

(4) A rejection or other refusal by the buyer to receive or retain the goods, whether or not justified, or a justified revocation of acceptance reverts title to the goods in the seller. Such reversion occurs by operation of law and is not a "sale."

Section 2—402. Rights of Seller's Creditors Against Sold Goods.

(1) Except as provided in subsections (2) and (3), rights of unsecured creditors of the seller with respect to goods which have been identified to a contract for sale are subject to the buyer's rights to recover the goods under this Article (Sections 2—502 and 2—716).

(2) A creditor of the seller may treat a sale or an identification of goods to a contract for sale as void if as against him a retention of possession by the seller is fraudulent under any rule of law of the state where the goods are situated, except that retention of possession in good faith and current course of trade by a merchant-seller for a commercially reasonable time after a sale or identification is not fraudulent.

(3) Nothing in this Article shall be deemed to impair the rights of creditors of the seller

(a) under the provisions of the Article on Secured Transactions (Article 9); or

(b) where identification to the contract or delivery is made not in current course of trade but in satisfaction of or as security for a pre-existing claim for money, security or the like and is made under circumstances which under any rule of law of the state where the goods are situated would apart from this Article constitute the transaction a fraudulent transfer or voidable preference.

Section 2—403. Power to Transfer; Good Faith Purchase of Goods; "Entrusting."

(1) A purchaser of goods acquires all title which his transferor had or

had power to transfer except that a purchaser of a limited interest acquires rights only to the extent of the interest purchased. A person with voidable title has power to transfer a good title to a good faith purchaser for value. When goods have been delivered under a transaction of purchase the purchaser has such power even though

(a) the transferor was deceived as to the identity of the purchaser, or

(b) the delivery was in exchange for a check which is later dishonored, or

(c) it was agreed that the transaction was to be a "cash sale," or

(d) the delivery was procured through fraud punishable as larcenous under the criminal law.

(2) Any entrusting of possession of goods to a merchant who deals in goods of that kind gives him power to transfer all rights of the entruster to a buyer in ordinary course of business.

(3) "Entrusting" includes any delivery and any acquiescence in retention of possession regardless of any condition expressed between the parties to the delivery or acquiescence and regardless of whether the procurement of the entrusting or the possessor's disposition of the goods have been such as to be larcenous under the criminal law.

(4) The rights of other purchasers of goods and of lien creditors are governed by the Articles on Secured Transactions (Article 9), Bulk Transfers (Article 6) and Documents of Title (Article 7).

## PART 5

### PERFORMANCE

Section 2—501. Insurable Interest in Goods; Manner of Identification of Goods.

(1) The buyer obtains a special property and an insurable interest in goods by identification of existing goods as goods to which the contract refers even though the goods so identified are non-conforming and he has an option to return or reject them. Such identification can be made at any time and in any manner explicitly agreed to by the parties. In the absence of explicit agreement identification occurs

(a) when the contract is made if it is for the sale of goods already existing and identified;

(b) if the contract is for the sale of future goods other than those de-

scribed in paragraph (c), when goods are shipped, marked or otherwise designated by the seller as goods to which the contract refers;

(c) when the crops are planted or otherwise become growing crops or the young are conceived if the contract is for the sale of unborn young to be born within twelve months after contracting or for the sale of crops to be harvested within twelve months or the next normal harvest season after contracting whichever is longer.

(2) The seller retains an insurable interest in goods so long as title to or any security interest in the goods remains in him and where the identification is by the seller alone he may until default or insolvency or notification to the buyer that the identification is final substitute other goods for those identified.

(3) Nothing in this section impairs any insurable interest recognized under any other statute or rule of law. Section 2—502. Buyer's Right to Goods on Seller's Insolvency.

(1) Subject to subsection (2) and even though the goods have not been shipped a buyer who has paid a part or all of the price of goods in which he has a special property under the provisions of the immediately preceding section may on making and keeping good a tender of any unpaid portion of their price recover them from the seller if the seller becomes insolvent within ten days after receipt of the first installment on their price.

(2) If the identification creating his special property has been made by the buyer he acquires the right to recover the goods only if they conform to the contract for sale.

Section 2—503. Manner of Seller's Tender of Delivery.

(1) Tender of delivery requires that the seller put and hold conforming goods at the buyer's disposition and give the buyer any notification reasonably necessary to enable him to take delivery. The manner, time and place for tender are determined by the agreement and this Article, and in particular

(a) tender must be at a reasonable hour, and if it is of goods they must be kept available for the period reasonably necessary to enable the buyer to take possession; but

(b) unless otherwise agreed the buyer must furnish facilities reasonably suited to the receipt of the goods.

(2) Where the case is within the next section respecting shipment tend-

er requires that the seller comply with its provisions.

(3) Where the seller is required to deliver at a particular destination tender requires that he comply with subsection (1) and also in any appropriate case tender documents as described in subsections (4) and (5) of this section.

(4) Where goods are in the possession of a bailee and are to be delivered without being moved

(a) tender requires that the seller either tender a negotiable document of title covering such goods or procure acknowledgment by the bailee of the buyer's right to possession of the goods; but

(b) tender to the buyer of a non-negotiable document of title or of a written direction to the bailee to deliver is sufficient tender unless the buyer seasonably objects, and receipt by the bailee of notification of the buyer's rights fixes those rights as against the bailee and all third persons; but risk of loss of the goods and of any failure by the bailee to honor the non-negotiable document of title or to obey the direction remains on the seller until the buyer has had a reasonable time to present the document or direction, and a refusal by the bailee to honor the document or to obey the direction defeats the tender.

(5) Where the contract requires the seller to deliver documents

(a) he must tender all such documents in correct form, except as provided in this Article with respect to bills of lading in a set (subsection (2) of Section 2—323); and

(b) tender through customary banking channels is sufficient and dishonor of a draft accompanying the documents constitutes non-acceptance or rejection.

Section 2—504. Shipment by Seller.

Where the seller is required or authorized to send the goods to the buyer and the contract does not require him to deliver them at a particular destination, then unless otherwise agreed he must

(a) put the goods in the possession of such a carrier and make such a contract for their transportation as may be reasonable having regard to the nature of the goods and other circumstances of the case; and

(b) obtain and promptly deliver or tender in due form any document necessary to enable the buyer to obtain possession of the goods or other-

wise required by the agreement or by usage of trade; and

(c) promptly notify the buyer of the shipment.

Failure to notify the buyer under paragraph (c) or to make a proper contract under paragraph (a) is a ground for rejection only if material delay or loss ensues.

#### Section 2—505. Seller's Shipment Under Reservation.

(1) Where the seller has identified goods to the contract by or before shipment:

(a) his procurement of a negotiable bill of lading to his own order or otherwise reserves in him a security interest in the goods. His procurement of the bill to the order of a financing agency or of the buyer indicates in addition only the seller's expectation of transferring that interest to the person named.

(b) a non-negotiable bill of lading to himself or his nominee reserves possession of the goods as security but except in a case of conditional delivery (subsection (2) of Section 2—507) a non-negotiable bill of lading naming the buyer as consignee reserves no security interest even though the seller retains possession of the bill of lading.

(2) When shipment by the seller with reservations of a security interest is in violation of the contract for sale it constitutes an improper contract for transportation within the preceding section but impairs neither the rights given to the buyer by shipment and identification of the goods to the contract nor the seller's powers as a holder of a negotiable document.

#### Section 2—506. Rights of Financing Agency.

(1) A financing agency by paying or purchasing for value a draft which relates to a shipment of goods acquires to the extent of the payment or purchase and in addition to its own rights under the draft and any document of title securing it any rights of the shipper in the goods including the right to stop delivery and the shipper's right to have the draft honored by the buyer.

(2) The right to reimbursement of a financing agency which has in good faith honored or purchased the draft under commitment to or authority from the buyer is not impaired by subsequent discovery of defects with reference to any relevant document

which was apparently regular on its face.

#### Section 2—507. Effect of Seller's Tender; Delivery on Condition.

(1) Tender of delivery is a condition to the buyer's duty to accept the goods and, unless otherwise agreed, to his duty to pay for them. Tender entitles the seller to acceptance of the goods and to payment according to the contract.

(2) Where payment is due and demanded on the delivery to the buyer of goods or documents of title, his right as against the seller to retain or dispose of them is conditional upon his making the payment due.

#### Section 2—508. Cure by Seller of Improper Tender or Delivery; Replacement.

(1) Where any tender or delivery by the seller is rejected because non-conforming and the time for performance has not yet expired, the seller may seasonably notify the buyer of his intention to cure and may then within the contract time make a conforming delivery.

(2) Where the buyer rejects a non-conforming tender which the seller had reasonable grounds to believe would be acceptable with or without money allowance the seller may if he seasonably notifies the buyer have a further reasonable time to substitute a conforming tender.

#### Section 2—509. Risk of Loss in the Absence of Breach.

(1) Where the contract requires or authorizes the seller to ship the goods by carrier

(a) if it does not require him to deliver them at a particular destination, the risk of loss passes to the buyer when the goods are duly delivered to the carrier even though the shipment is under reservation (Section 2—505); but

(b) if it does require him to deliver them at a particular destination and the goods are there duly tendered while in the possession of the carrier, the risk of loss passes to the buyer when the goods are there duly so tendered as to enable the buyer to take delivery.

(2) Where the goods are held by a bailee to be delivered without being moved, the risk of loss passes to the buyer.

(a) on his receipt of a negotiable document of title covering the goods; or



(b) on acknowledgement by the bailee of the buyer's right to possession of the goods; or

(c) after his receipt of a non-negotiable document of title or other written direction to deliver, as provided in subsection (4)(b) of Section 2—503.

(3) In any case not within subsection (1) or (2), the risk of loss passes to the buyer on his receipt of the goods if the seller is a merchant; otherwise the risk passes to the buyer on tender of delivery.

(4) The provisions of this section are subject to contrary agreement of the parties and to the provisions of this Article on sale or approval (Section 2—327) and on effect of breach on risk of loss (Section 2—510).

**Section 2—510. Effect of Breach on Risk of Loss.**

(1) Where a tender or delivery of goods so fails to conform to the contract as to give a right of rejection the risk of their loss remains on the seller until cure or acceptance.

(2) Where the buyer rightfully revokes acceptance he may to the extent of any deficiency in his effective insurance coverage treat the risk of loss as having rested on the seller from the beginning.

(3) Where the buyer as to conforming goods already identified to the contract for sale repudiates or is otherwise in breach before risk of their loss has passed to him, the seller may to the extent of any deficiency in his effective insurance coverage treat the risk of loss as resting on the buyer for a commercially reasonable time.

**Section 2—511. Tender of Payment by Buyer; Payment by Check.**

(1) Unless otherwise agreed tender of payment is a condition to the seller's duty to tender and complete any delivery.

(2) Tender of payment is sufficient when made by any means or in any manner current in the ordinary course of business unless the seller demands payment in legal tender and gives any extension of time reasonably necessary to procure it.

(3) Subject to the provisions of this Act on the effect of an instrument on an obligation (Section 3—802), payment by check is conditional and is defeated as between the parties by dishonor of the check on due presentment.

**Section 2—512. Payment by Buyer Before Inspection.**

(1) Where the contract requires payment before inspection non-conformity of the goods does not excuse the buyer from so making payment unless

(a) the non-conformity appears without inspection; or

(b) despite tender of the required documents the circumstances would justify injunction against honor under the provisions of this Act (Section 5—114).

(2) Payment pursuant to subsection (1) does not constitute an acceptance of goods or impair the buyer's right to inspect or any of his remedies.

**Section 2—513. Buyer's Right to Inspection of Goods.**

(1) Unless otherwise agreed and subject to subsection (3), where goods are tendered or delivered or identified to the contract for sale, the buyer has a right before payment or acceptance to inspect them at any reasonable place and time and in any reasonable manner. When the seller is required or authorized to send the goods to the buyer, the inspection may be after their arrival.

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(2) Expenses of inspection must be borne by the buyer but may be recovered from the seller if the goods do not conform and are rejected.

(3) Unless otherwise agreed and subject to the provisions of this Article on C.I.F. contracts (subsection (3) of Section 2—321), the buyer is not entitled to inspect the goods before payment of the price when the contract provides

(a) for delivery "C.O.D." or on other like terms; or

(b) for payment against documents of title, except where such payment is due only after the goods are to become available for inspection.

(4) A place or method of inspection fixed by the parties is presumed

to be exclusive but unless otherwise expressly agreed it does not postpone identification or shift the place for delivery or for passing the risk of loss. If compliance becomes impossible, inspection shall be as provided in this section unless the place or method fixed was clearly intended as an indispensable condition failure of which avoids the contract.

**Section 2—514. When Documents Deliverable on Acceptance; When on Payment.**

Unless otherwise agreed documents against which a draft is drawn are to be delivered to the drawee on acceptance of the draft if it is payable more than three days after presentment; otherwise, only on payment.

**Section 2—515. Preserving Evidence of Goods in Dispute.**

In furtherance of the adjustment of any claim or dispute

(a) either party on reasonable notification to the other and for the purpose of ascertaining the facts and preserving evidence has the right to inspect, test and sample the goods including such of them as may be in the possession or control of the other; and

(b) the parties may agree to a third party inspection or survey to determine the conformity or condition of the goods and may agree that the findings shall be binding upon them in any subsequent litigation or adjustment.

**PART 6**

**BREACH, REPUDIATION AND EXCUSE**

**Section 2—601. Buyer's Rights on Improper Delivery.**

Subject to the provisions of this Article on breach in installment contracts (Section 2—612) and unless otherwise agreed under the sections on contractual limitations of remedy (Sections 2—718 and 2—719), if the goods or the tender of delivery fail in any respect to conform to the contract, the buyer may

(a) reject the whole; or  
(b) accept the whole; or  
(c) accept any commercial unit or units and reject the rest.

**Section 2—602. Manner and Effect of Rightful Rejection.**

(1) Rejection of goods must be within a reasonable time after their delivery or tender. It is ineffective unless the buyer seasonably notifies the seller.

(2) Subject to the provisions of the

two following sections on rejected goods (Sections 2—603 and 2—604),

(a) after rejection any exercise of ownership by the buyer with respect to any commercial unit is wrongful as against the seller; and

(b) if the buyer has before rejection taken physical possession of goods in which he does not have a security interest under the provisions of this Article (subsection (3) of Section 2—711), he is under a duty after rejection to hold them with reasonable care at the seller's disposition for a time sufficient to permit the seller to remove them; but

(c) the buyer has no further obligations with regard to goods rightfully rejected.

(3) The seller's rights with respect to goods wrongfully rejected are governed by the provisions of this Article on Seller's remedies in general (Section 2—703).

**Section 2—603. Merchant Buyer's Duties as to Rightfully Rejected Goods.**

(1) Subject to any security interest in the buyer (subsection (3) of Section 2—711), when the seller has no agent or place of business at the market of rejection a merchant buyer is under a duty after rejection of goods in his possession or control to follow any reasonable instructions received from the seller with respect to the goods and in the absence of such instructions to make reasonable efforts to sell them for the seller's account if they are perishable or threaten to decline in value speedily. Instructions are not reasonable if on demand indemnity for expenses is not forthcoming.

(2) When the buyer sells goods under subsection (1), he is entitled to reimbursement from the seller or out of the proceeds for reasonable expenses of caring for and selling them, and if the expenses include no selling commission then to such commission as is usual in the trade or if there is none to a reasonable sum not exceeding ten per cent on the gross proceeds.

(3) In complying with this section the buyer is held only to good faith and good faith conduct hereunder is neither acceptance nor conversion nor the basis of an action for damages.

**Section 2—604. Buyer's Options as to Salvage of Rightfully Rejected Goods.**

Subject to the provisions of the im-

mediately preceding section on perishables if the seller gives no instructions within a reasonable time after notification of rejection the buyer may store the rejected goods for the seller's account or reship them to him or resell them for the seller's account with reimbursement as provided in the preceding section. Such action is not acceptance or conversion.

**Section 2—605. Waiver of Buyer's Objections by Failure to Particularize.**

(1) The buyer's failure to state in connection with rejection a particular defect which is ascertainable by reasonable inspection precludes him from relying on the unstated defect to justify rejection or to establish breach

(a) where the seller could have cured it if stated seasonably; or

(b) between merchants when the seller has after rejection made a request in writing for a full and final written statement of all defects on which the buyer proposes to rely.

(2) Payment against documents made without reservation of rights precludes recovery of the payment for defects apparent on the face of the documents.

**Section 2—606. What Constitutes Acceptance of Goods.**

(1) Acceptance of goods occurs when the buyer

(a) after a reasonable opportunity to inspect the goods signifies to the seller that the goods are conforming or that he will take or retain them in spite of their non-conformity; or

(b) fails to make an effective rejection (subsection (1) of Section 2—602), but such acceptance does not occur until the buyer has had a reasonable opportunity to inspect them; or

(c) does any act inconsistent with the seller's ownership; but if such act is wrongful as against the seller it is an acceptance only if ratified by him.

(2) Acceptance of a part of any commercial unit is acceptance of that entire unit.

**Section 2—607. Effect of Acceptance; Notice of Breach; Burden of Establishing Breach After Acceptance; Notice of Claim or Litigation to Person Answerable Over.**

(1) The buyer must pay at the contract rate for any goods accepted.

(2) Acceptance of goods by the buyer precludes rejection of the goods accepted and if made with knowledge of a non-conformity cannot be re-

voked because of it unless the acceptance was on the reasonable assumption that the non-conformity would be seasonably cured but acceptance does not of itself impair any other remedy provided by this Article for non-conformity.

(3) Where a tender has been accepted

(a) the buyer must within a reasonable time after he discovers or should have discovered any breach notify the seller of breach or be barred from any remedy; and

(b) if the claim is one for infringement or the like (subsection (3) of Section 2—312) and the buyer is sued as a result of such a breach he must so notify the seller within a reasonable time after he receives notice of the litigation or be barred from any remedy over for liability established by the litigation.

(4) The burden is on the buyer to establish any breach with respect to the goods accepted.

(5) Where the buyer is sued for breach of a warranty or other obligation for which his seller is answerable over

(a) he may give his seller written notice of the litigation. If the notice states that the seller may come in and defend and that if the seller does not do so he will be bound in any action against him by his buyer by any determination of fact common to the two litigations, then unless the seller after seasonable receipt of the notice does come in and defend he is so bound

(b) if the claim is one for infringement or the like (subsection (3) of Section 2—312) the original seller may demand in writing that his buyer turn over to him control of the litigation including settlement or else be barred from any remedy over and if he also agrees to bear all expense and to satisfy any adverse judgment, then unless the buyer after seasonable receipt of the demand does turn over control the buyer is so barred.

(6) The provisions of subsections (3), (4) and (5) apply to any obligation of a buyer to hold the seller harmless against infringement or the like (subsection (3) of Section 2—312).

**Section 2—608. Revocation of Acceptance in Whole or in Part.**

(1) The buyer may revoke his acceptance of a lot or commercial unit whose non-conformity substantially

impairs its value to him if he has accepted it

(a) on the reasonable assumption that its non-conformity would be cured and it has not been seasonably cured; or

(b) without discovery of such non-conformity if his acceptance was reasonably induced either by the difficulty of discovery before acceptance or by the seller's assurances.

(2) Revocation of acceptance must occur within a reasonable time after the buyer discovers or should have discovered the ground for it and before any substantial change in condition of the goods which is not caused by their own defects. It is not effective until the buyer notifies the seller of it.

(3) A buyer who so revokes has the same rights and duties with regard to the goods involved as if he had rejected them.

Section 2—609. Right to Adequate Assurance of Performance.

(1) A contract for sale imposes an obligation on each party that the other's expectation of receiving due performance will not be impaired. When reasonable grounds for insecurity arise with respect to the performance of either party the other may in writing demand adequate assurance of due performance and until he receives such assurance may if commercially reasonable suspend any performance for which he has not already received the agreed return.

(2) Between merchants the reasonableness of grounds for insecurity and the adequacy of any assurance offered shall be determined according to commercial standards.

(3) Acceptance of any improper delivery or payment does not prejudice the aggrieved party's right to demand adequate assurance of future performance.

(4) After receipt of a justified demand failure to provide within a reasonable time not exceeding thirty days such assurance of due performance as is adequate under the circumstances of the particular case is a repudiation of the contract.

Section 2—610. Anticipatory Repudiation

When either party repudiates the contract with respect to a performance not yet due the loss of which will substantially impair the value of the contract to the other, the aggrieved party may

(a) for a commercially reasonable time await performance by the repudiating party; or

(b) resort to any remedy for breach (Section 2—703 or Section 2—711), even though he has notified the repudiating party that he would await the latter's performance and has urged retraction; and

(c) in either case suspend his own performance or proceed in accordance with the provisions of this Article on the seller's right to identify goods to the contract notwithstanding breach or to salvage unfinished goods (Section 2—704).

Section 2—611. Retraction of Anticipatory Repudiation.

(1) Until the repudiating party's next performance is due he can retract his repudiation unless the aggrieved party has since the repudiation cancelled or materially changed his position or otherwise indicated that he considers the repudiation final.

(2) Retraction may be by any method which clearly indicates to the aggrieved party that the repudiating party intends to perform, but must include any assurance justifiably demanded under the provisions of this Article (Section 2—609).

(3) Retraction reinstates the repudiating party's rights under the contract with due excuse and allowance to the aggrieved party for any delay occasioned by the repudiation.

Section 2—612. "Installment Contract"; Breach.

(1) An "installment contract" is one which requires or authorizes the delivery of goods in separate lots to be separately accepted, even though the contract contains a clause "each delivery is a separate contract" or its equivalent.

(2) The buyer may reject any installment which is non-conforming if the non-conformity substantially impairs the value of that installment and cannot be cured or if the non-conformity is a defect in the required documents; but if the non-conformity does not fall within subsection (3) and the seller gives adequate assurance of its cure the buyer must accept that installment.

(3) Whenever non-conformity or default with respect to one or more installments substantially impairs the value of the whole contract there is a breach of the whole. But the

aggrieved party reinstates the contract if he accepts a non-conforming installment without seasonably notifying of cancellation or if he brings an action with respect only to past installments or demands performance as to future installments.

**Section 2—613. Casualty to Identified Goods.**

Where the contract requires for its performance goods identified when the contract is made, and the goods suffer casualty without fault of either party before the risk of loss passes to the buyer, or in a proper case under a "no arrival, no sale" term (Section 2—324) then

(a) if the loss is total the contract is avoided; and

(b) if the loss is partial or the goods have so deteriorated as no longer to conform to the contract the buyer may nevertheless demand inspection and at his option either treat the contract as avoided or accept the goods with due allowance from the contract price for the deterioration or the deficiency in quantity but without further right against the seller.

**Section 2—614. Substituted Performance.**

(1) Where without fault of either party the agreed berthing, loading, or unloading facilities fail or an agreed type of carrier becomes unavailable or the agreed manner of delivery otherwise becomes commercially impractical but a commercially reasonable substitute is available, such substitute performance must be tendered and accepted.

(2) If the agreed means or manner of payment fails because of domestic or foreign governmental regulation, the seller may withhold or stop delivery unless the buyer provides a means or manner of payment which is commercially a substantial equivalent. If delivery has already been taken, payment by the means or in the manner provided by the regulation discharges the buyer's obligation unless the regulation is discriminatory, oppressive or predatory.

**Section 2—615. Excuse by Failure of Presupposed Conditions.**

Except so far as a seller may have assumed a greater obligation and subject to the preceding section on substituted performance:

(a) Delay in delivery or non-delivery in whole or in part by a seller who complies with paragraphs (b)

and (c) is not a breach of his duty under a contract for sale if performance as agreed has been made impracticable by the occurrence of a contingency and non-occurrence of which was a basic assumption on which the contract was made or by compliance in good faith with any applicable foreign or domestic governmental regulation or order whether or not it later proves to be invalid.

(b) Where the causes mentioned in paragraph (a) affect only a part of the seller's capacity to perform, he must allocate production and deliveries among his customers but may at his option include regular customers not then under contract as well as his own requirements for further manufacture. He may so allocate in any manner which is fair and reasonable.

(c) The seller must notify the buyer seasonably that there will be delay or non-delivery and, when allocation is required under paragraph (b), of the estimated quota thus made available for the buyer.

**Section 2—616. Procedure on Notice Claiming Excuse.**

(1) Where the buyer receives notification of a material or indefinite delay or an allocation justified under the preceding section he may by written notification to the seller as to any delivery concerned, and where the prospective deficiency substantially impairs the value of the whole contract under the provisions of this Article relating to breach of installment contracts (Section 2—612), then also as to the whole,

(a) terminate and thereby discharge any unexecuted portion of the contract; or

(b) modify the contract by agreeing to take his available quota in substitution.

(2) If after receipt of such notification from the seller the buyer fails so to modify the contract within a reasonable time not exceeding thirty days the contract lapses with respect to any deliveries affected.

(3) The provisions of this section may not be negated by agreement except in so far as the seller has assumed a greater obligation under the preceding section.

**PART 7**

**REMEDIES**

**Section 2—701. Remedies for**

### Breach of Collateral Contracts Not Impaired.

Remedies for breach of any obligation or promise collateral or ancillary to a contract for sale are not impaired by the provisions of this Article.

### Section 2—702. Seller's Remedies on Discovery of Buyer's Insolvency.

(1) Where the seller discovers the buyer to be insolvent he may refuse delivery except for cash including payment for all goods theretofore delivered under the contract, and stop delivery under this Article (Section 2—705).

(2) Where the seller discovers that the buyer has received goods on credit while insolvent he may reclaim the goods upon demand made within ten days after the receipt, but if misrepresentation of solvency has been made to the particular seller in writing within three months before delivery the ten day limitation does not apply. Except as provided in this subsection the seller may not base a right to reclaim goods on the buyer's fraudulent or innocent misrepresentation of solvency or of intent to pay.

(3) The seller's right to reclaim under subsection (2) is subject to the rights of a buyer in ordinary course or other good faith purchaser or lien creditor under this Article (Section 2—403). Successful reclamation of goods excludes all other remedies with respect to them.

### Section 2—703. Seller's Remedies in General.

Where the buyer wrongfully rejects or revokes acceptance of goods or fails to make a payment due on or before delivery or repudiates with respect to a part or the whole, then with respect to any goods directly affected and, if the breach is of the whole contract (Section 2—612), then also with respect to the whole undelivered balance, the aggrieved seller may

(a) withhold delivery of such goods;

(b) stop delivery by any bailee as hereafter provided (Section 2—705);

(c) proceed under the next section respecting goods still unidentified to the contract;

(d) resell and recover damages as hereafter provided (Section 2—706);

(e) recover damages for non-acceptance (Section 2—708) or in a

proper case the price (Section 2—709);

(f) cancel.

### Section 2—704. Seller's Right to Identify Goods to the Contract Notwithstanding Breach or to Salvage Unfinished Goods.

(1) An aggrieved seller under the preceding section may

(a) identify to the contract conforming goods not already identified if at the time he learned of the breach they are in his possession or control;

(b) treat as the subject of resale goods which have demonstrably been intended for the particular contract even though those goods are unfinished.

(2) Where the goods are unfinished an aggrieved seller may in the exercise of reasonable commercial judgment for the purposes of avoiding loss and of effective realization either complete the manufacture and wholly identify the goods to the contract or cease manufacture and resell for scrap or salvage value or proceed in any other reasonable manner.

### Section 2—705. Seller's Stoppage of Delivery in Transit or Otherwise.

(1) The seller may stop delivery of goods in the possession of a carrier or other bailee when he discovers the buyer to be insolvent (Section 2—702) and may stop delivery of carload, truckload, plane load or larger shipments of express or freight when the buyer repudiates or fails to make a payment due before delivery or if for any other reason the seller has a right to withhold or reclaim the goods.

(2) As against such buyer the seller may stop delivery until

(a) receipt of the goods by the buyer; or

(b) acknowledgment to the buyer by any bailee of the goods except a carrier that the bailee holds the goods for the buyer; or

(c) Such acknowledgement to the buyer by a carrier by reshipment or as warehouseman; or

(d) negotiation to the buyer of any negotiable document of title covering the goods.

(3) (a) To stop delivery the seller must so notify as to enable the bailee by reasonable diligence to prevent delivery of the goods.

(b) After such notification the bailee must hold and deliver the goods

according to the directions of the seller but the seller is liable to the bailee for any ensuing charges or damages.

(c) If a negotiable document of title has been issued for goods the bailee is not obliged to obey a notification to stop until surrender of the document.

(d) A carrier who has issued a non-negotiable bill of lading is not obliged to obey a notification to stop received from a person other than the consignor.

Section 2—706. Seller's Resale Including Contract for Resale.

(1) Under the conditions stated in Section 2—703 on seller's remedies, the seller may resell the goods concerned or the undelivered balance thereof. Where the resale is made in good faith and in a commercially reasonable manner the seller may recover the difference between the resale price and the contract price together with any incidental damages allowed under the provisions of this Article (Section 2—710), but less expenses saved in consequence of the buyer's breach.

(2) Except as otherwise provided in subsection (3) or unless otherwise agreed resale may be at public or private sale including sale by way of one or more contracts to sell or of identification to an existing contract of the seller. Sale may be as a unit or in parcels and at any time and place and on any terms but every aspect of the sale including the method, manner, time, place and terms must be commercially reasonable. The resale must be reasonably identified as referring to the broken contract, but it is not necessary that the goods be in existence or that any or all of them have been identified to the contract before the breach.

(3) Where the resale is at private sale the seller must give the buyer reasonable notification of his intention to resell.

(4) Where the resale is at public sale

(a) only identified goods can be sold except where there is a recognized market for a public sale of futures in goods of the kind; and

(b) it must be made at a usual place or market for public sale if one is reasonably available and except in the case of goods which are perishable or threaten to decline in value speedily the seller must give

the buyer reasonable notice of the time and place of the resale; and

(c) if the goods are not to be withdrawn in the view of those attending the sale the notification of sale must state the place where the goods are located and provide for their reasonable inspection by prospective bidders; and

(d) the seller may buy.

(5) A purchaser who buys in good faith at a resale takes the goods free of any rights of the original buyer even though the seller fails to comply with one or more of the requirements of this section.

(6) The seller is not accountable to the buyer for any profit made on any resale. A person in the position of a seller (Section 2—707) or a buyer who has rightfully rejected or justifiably revoked acceptance must account for any excess over the amount of his security interest, as hereinafter defined (subsection (3) of Section 2—711).

Section 2—707. "Persons in the Position of a Seller."

(1) A "person in the position of a seller" includes as against a principal an agent who has paid or become responsible for the price of goods on behalf of his principal or anyone who otherwise holds a security interest or other right in goods similar to that of a seller.

(2) A person in the position of a seller may as provided in this Article withhold or stop delivery (Section 2—705) and resell (Section 2—706) and recover incidental damages (Section 2—710).

Section 2—708. Seller's Damages for Non-acceptance or Repudiation.

(1) Subject to subsection (2) and to the provisions of this Article with respect to proof of market price (Section 2—723), the measure of damages for non-acceptance or repudiation by the buyer is the difference between the market price at the time and place for tender and the unpaid contract price together with any incidental damages provided in this Article (Section 2—710), but less expenses saved in consequence of the buyer's breach.

(2) If the measure of damages provided in subsection (1) is inadequate to put the seller in as good a position as performance would have done then the measure of damages is the profit (including reasonable overhead) which the seller would have

made from full performance by the buyer, together with any incidental damages provided in this Article (Section 2—710), due allowance for costs reasonably incurred and due credit for payments or proceeds of resale.

**Section 2—709. Action for the Price.**

(1) When the buyer fails to pay the price as it becomes due the seller may recover, together with any incidental damages under the next section, the price

(a) of goods accepted or of conforming goods lost or damaged within a commercially reasonable time after risk of their loss has passed to the buyer; and

(b) of goods identified to the contract if the seller is unable after reasonable effort to resell them at a reasonable price or the circumstances reasonably indicate that such effort will be unavailing.

(2) Where the seller sues for the price he must hold for the buyer any goods which have been identified to the contract and are still in his control except that if resale becomes possible he may resell them at any time prior to the collection of the judgment. The net proceeds of any such resale must be credited to the buyer and payment of the judgment entitles him to any goods not resold.

(3) After the buyer has wrongfully rejected or revoked acceptance of the goods or has failed to make a payment due or has repudiated (Section 2—610), a seller who is held not entitled to the price under this section shall nevertheless be awarded damages for non-acceptance under the preceding section.

**Section 2—710. Seller's Incidental Damages.**

Incidental damages to an aggrieved seller include any commercially reasonable charges, expenses or commissions incurred in stopping delivery, in the transportation, care and custody of goods after the buyer's breach, in connection with return or resale of the goods or otherwise resulting from the breach.

**Section 2—711. Buyer's Remedies in General; Buyer's Security Interest in Rejected Goods.**

(1) Where the seller fails to make delivery or repudiates or the buyer rightfully rejects or justifiably revokes acceptance then with respect

to any goods involved, and with respect to the whole if the breach goes to the whole contract (Section 2—612), the buyer may cancel and whether or not he has done so may in addition to recovering so much of the price as has been paid

(a) "cover" and have damages under the next section as to all the goods affected whether or not they have been identified to the contract; or

(b) recover damages for non-delivery as provided in this Article (Section 2—713).

(2) Where the seller fails to deliver or repudiates the buyer may also

(a) if the goods have been identified recover them as provided in this Article (Section 2—502); or

(b) in a proper case obtain specific performance or replevy the goods as provided in this Article (Section 2—716).

(3) On rightful rejection or justifiable revocation of acceptance a buyer has a security interest in goods in his possession or control for any payments made on their price and any expenses reasonably incurred in their inspection, receipt, transportation, care and custody and may hold such goods and resell them in like manner as an aggrieved seller (Section 2—706).

**Section 2—712. "Cover"; Buyer's Procurement of Substitute Goods.**

(1) After a breach within the preceding section the buyer may "cover" by making in good faith and without unreasonable delay any reasonable purchase of or contract to purchase goods in substitution for those due from the seller.

(2) The buyer may recover from the seller as damages the difference between the cost of cover and the contract price together with any incidental or consequential damages as hereinafter defined (Section 2—715), but less expenses saved in consequence of the seller's breach.

(3) Failure of the buyer to effect cover within this section does not bar him from any other remedy.

**Section 2—713. Buyer's Damages for Non-Delivery or Repudiation.**

(1) Subject to the provisions of this Article with respect to proof of market price (Section 2—713), the measure of damages for non-delivery or repudiation by the seller is the



difference between the market price at the time when the buyer learned of the breach and the contract price together with any incidental and consequential damages provided in this Article (Section 2—715), but less expenses saved in consequence of the seller's breach.

(2) Market price is to be determined as of the place for tender or, in cases of rejection after arrival or revocation of acceptance, as of the place of arrival.

#### Section 2—714. Buyer's Damages for Breach in Regard to Accepted Goods.

(1) Where the buyer has accepted goods and given notification (subsection (3) of Section 2—607) he may recover as damages for any non-conformity of tender the loss resulting in the ordinary course of events from the seller's breach as determined in any manner which is reasonable.

(2) The measure of damages for breach of warranty is the difference at the time and place of acceptance between the value of the goods accepted and the value they would have had if they had been as warranted, unless special circumstances show proximate damages of a different amount.

(3) In a proper case any incidental and consequential damages under the next section may also be recovered.

#### Section 2—715. Buyer's Incidental and Consequential Damages.

(1) Incidental damages resulting from the seller's breach include expenses reasonably incurred in inspection, receipt, transportation and care and custody of goods rightfully rejected, any commercially reasonable charges, expenses or commissions in connection with effecting cover and any other reasonable expenses incident to the delay or other breach.

(2) Consequential damages resulting from the seller's breach include

(a) any loss resulting from general or particular requirements and needs of which the seller at the time of contracting had reason to know and which could not reasonably be prevented by cover or otherwise; and

(b) injury to person or property proximately resulting from any breach of warranty.

#### Section 2—716. Buyer's Right to Specific Performance or Replevin.

(1) Specific performance may be

decreed where the goods are unique or in other proper circumstances.

(2) The decree for specific performance may include such terms and conditions as to payment of the price, damages, or other relief as the court may deem just.

(3) The buyer has a right of replevin for goods identified to the contract if after reasonable effort he is unable to effect cover for such goods or the circumstances reasonably indicate that such effort will be unavailing or if the goods have been shipped under reservation and satisfaction of the security interest in them has been made or tendered.

#### Section 2—717. Deduction of Damages From the Price.

The buyer on notifying the seller of his intention to do so may deduct all or any part of the damages resulting from any breach of the contract from any part of the price still due under the same contract.

#### Section 2—718. Liquidation or Limitation of Damages; Deposits.

(1) Damages for breach by either party may be liquidated in the agreement but only at an amount which is reasonable in the light of the anticipated or actual harm caused by the breach, the difficulties of proof of loss, and the inconvenience or non-feasibility of otherwise obtaining an adequate remedy. A term fixing unreasonably large liquidated damages is void as a penalty.

(2) Where the seller justifiably withholds delivery of goods because of the buyer's breach, the buyer is entitled to restitution of any amount by which the sum of his payments exceeds

(a) the amount to which the seller is entitled by virtue of terms liquidating the seller's damages in accordance with subsection (1), or

(b) in the absence of such terms, twenty per cent of the value of the total performance for which the buyer is obligated under the contract or \$500, whichever is smaller.

(3) The buyer's right to restitution under subsection (2) is subject to offset to the extent that the seller establishes

(a) a right to recover damages under the provisions of this Article other than subsection (1), and

(b) the amount or value of any benefits received by the buyer di-

rectly or indirectly by reason of the contract.

(4) Where a seller has received payment in goods their reasonable value or the proceeds of their resale shall be treated as payments for the purposes of subsection (2); but if the seller has notice of the buyer's breach before reselling goods received in part performance, his resale is subject to the conditions laid down in this Article on resale by an aggrieved seller (Section 2—706).

Section 2—719. Contractual Modification or Limitation of Remedy.

(1) Subject to the provisions of subsections (2) and (3) of this section and of the preceding section on liquidation and limitation of damages,

(a) the agreement may provide for remedies in addition to or in substitution for those provided in this Article and may limit or alter the measure of damages recoverable under this Article, as by limiting the buyer's remedies to return of the goods and repayment of the price or to repair and replacement of non-conforming goods or parts; and

(b) resort to a remedy as provided is optional unless the remedy is expressly agreed to be exclusive, in which case it is the sole remedy.

(2) where circumstances cause an exclusive or limited remedy to fail of its essential purpose, remedy may be had as provided in this Act.

(3) Consequential damages may be limited or excluded unless the limitation or exclusion is unconscionable. Limitation of consequential damages for injury to the person in the case of consumer goods is prima facie unconscionable but limitation of damages where the loss is commercial is not.

Section 2—720. Effect of "Cancellation" or "Rescission" on Claims for Antecedent Breach.

Unless the contrary intention clearly appears, expressions of "cancellation" or "rescission" of the contract or the like shall not be construed as a renunciation or discharge of any claim in damages for an antecedent breach.

Section 2 — 721. Remedies for Fraud.

Remedies for material misrepresentation or fraud include all remedies

available under this Article for non-fraudulent breach. Neither rescission or a claim for rescission of the contract for sale nor rejection or return of the goods shall bar or be deemed inconsistent with a claim for damages or other remedy.

Section 2—722. Who Can Sue Third Parties for Injury to Goods.

Where a third party so deals with goods which have been identified to a contract for sale as to cause actionable injury to a party to that contract.

(a) a right of action against the third party is in either party to the contract for sale who has title to or a security interest or a special property or an insurable interest in the goods; and if the goods have been destroyed or converted a right of action is also in the party who either bore the risk of loss under the contract for sale or has since the injury assumed that risk as against the other;

(b) if at the time of the injury the party plaintiff did not bear the risk of loss as against the other party to the contract for sale and there is no arrangement between them for disposition of the recovery, his suit or settlement is, subject to his own interest, as a fiduciary for the other party to the contract;

(c) either party may with the consent of the other sue for the benefit of whom it may concern.

Section 2—723. Proof of Market Price: Time and Place.

(1) If an action based on anticipatory repudiation comes to trial before the time for performance with respect to some or all of the goods, any damages based on market price (Section 2—708 or Section 2—713) shall be determined according to the price of such goods prevailing at the time when the aggrieved party learned of the repudiation.

(2) If evidence of a price prevailing at the times or places described in this Article is not readily available the price prevailing within any reasonable time before or after the time described or at any other place which in commercial judgment or under usage of trade would serve as a reasonable substitute for the one described may be used, making any proper allowance for the cost of

transporting the goods to or from such other place.

(3) Evidence of a relevant price prevailing at a time or place other than the one described in this Article offered by one party is not admissible unless and until he has given the other party such notice as the court finds sufficient to prevent unfair surprise.

Section 2—724. Admissibility of Market Quotations.

Whenever the prevailing price or value of any goods regularly bought and sold in any established commodity market is in issue, reports in official publications or trade journals or in newspapers or periodicals of general circulation published as the reports of such market shall be admissible in evidence. The circumstances of the preparation of such a report may be shown to affect its weight but not its admissibility.

Section 2—725. Statute of Limitations in Contracts for Sale.

(1) An action for breach of any contract for sale must be commenced within four years after the cause of action has accrued. By the original agreement the parties may reduce the period of limitation to not less than one year but may not extend it.

(2) A cause of action accrues when the breach occurs, regardless of the aggrieved party's lack of knowledge of the breach. A breach of warranty occurs when tender of delivery is made, except that where a warranty explicitly extends to future performance of the goods and discovery of the breach must await the time of such performance the cause of action accrues when the breach is or should have been discovered.

(3) Where an action commenced within the time limited by subsection (1) is so terminated as to leave available a remedy by another action for the same breach such other action may be commenced after the expiration of the time limited and within six months after the termination of the first action unless the termination resulted from voluntary discontinuance or from dismissal for failure or neglect to prosecute.

(4) This section does not alter the law on tolling of the statute of limitations nor does it apply to causes of action which have accrued before this Act became effective.

## ARTICLE 3 COMMERCIAL PAPER

### PART 1 SHORT TITLE, FORM AND INTERPRETATION

Section 3—101. Short Title.

This Article shall be known and may be cited as Uniform Commercial Code—Commercial Paper.

Section 3—102. Definitions and Index of Definitions.

(1) In this Article unless the context otherwise requires

(a) "Issue" means the first delivery of an instrument to a holder of a remitter.

(b) An "order" is a direction to pay and must be more than an authorization or request. It must identify the person to pay with reasonable certainty. It may be addressed to one or more such persons jointly or in the alternative but not in succession.

(c) A "promise" is an undertaking to pay and must be more than an acknowledgement of an obligation.

(d) "Secondary party" means a drawer or endorser.

(e) "Instrument" means a negotiable instrument.

(2) Other definitions applying to this Article and the sections in which they appear are:

"Acceptance." Section 3—410.

"Accommodation party." Section 3—415.

"Alteration." Section 3—407.

"Certificate of deposit." Section 3—104.

"Certification." Section 3—411.

"Check." Section 3—104.

"Definite time." Section 3—109.

"Dishonor." Section 3—507.

"Draft." Section 3—104.

"Holder in due course." Section 3—302.

"Negotiation." Section 3—202.

"Note." Section 3—104.

"Notice of dishonor." Section 3—508.

"On demand." Section 3—108.

"Presentment." Section 3—504.

"Protest." Section 3—509.

"Restrictive Indorsement." Section 3—205.

"Signature." Section 3—401.

(3) The following definitions in other Articles apply to this Article:

"Account." Section 4—104.

"Banking Day." Section 4—104.

"Clearing house." Section 4—104.

"Collecting bank." Section 4—105.  
 "Customer." Section 4—104.  
 "Depository Bank." Section 4—105.  
 "Documentary Draft." Section 4—104.  
 "Intermediary Bank." Section 4—105.  
 "Item." Section 4—104.  
 "Midnight deadline." Section 4—104.  
 "Payor bank." Section 4—105.

(4) In addition Article 1 contains general definitions and principles of construction and interpretation applicable throughout this Article.

Section 3—103. Limitations on Scope of Article.

(1) This Article does not apply to money, documents of title or investment securities.

(2) The provisions of this Article are subject to the provisions of the Article on Bank Deposits and Collections (Article 4) and Secured Transactions (Article 9).

Section 3—104. Form of Negotiable Instruments; "Draft"; "Check"; "Certificate of Deposit"; "Note."

(1) Any writing to be a negotiable instrument within this Article must

(a) be signed by the maker or drawer; and

(b) contain an unconditional promise or order to pay a sum certain in money and no other promise, order, obligation or power given by the maker or drawer except as authorized by this Article; and

(c) be payable on demand or at a definite time; and

(d) be payable to order or to bearer.

(2) A writing which complies with the requirements of this section is

(a) a "draft" ("bill of exchange") if it is an order;

(b) a "check" if it is a draft drawn on a bank and payable on demand;

(c) a "certificate of deposit" if it is an acknowledgement by a bank of receipt of money with an engagement to repay it;

(d) a "note" if it is a promise other than a certificate of deposit.

(3) As used in other Articles of this Act, and as the context may require, the terms "draft," "check," "certificate of deposit" and "note" may refer to instruments which are not negotiable within this Article as well as to instruments which are so negotiable.

Section 3—105. When Promise or Order Unconditional.

(1) A promise or order otherwise unconditional is not made conditional by the fact that the instrument

(a) is subject to implied or constructive conditions; or

(b) states its consideration, whether performed or promised, or the transaction which gave rise to the instrument, or that the promise or order is made or the instrument matures in accordance with or "as per" such transaction; or

(c) refers to or states that it arises out of a separate agreement or refers to a separate agreement for rights as to prepayment or acceleration; or

(d) states that it is drawn under a letter of credit; or

(e) states that it is secured, whether by mortgage, reservation of title or otherwise; or

(f) indicates a particular account to be debited or any other fund or source from which reimbursement is expected; or

(g) is limited to payment out of a particular fund or the proceeds of a particular source, if the instrument is issued by a government or governmental agency or unit; or

(h) is limited to payment out of the entire assets of a partnership, unincorporated association, trust or estate by or on behalf of which the instrument is issued.

(2) A promise or order is not unconditional if the instrument

(a) states that it is subject to or governed by any other agreement; or

(b) states that it is to be paid only out of a particular fund or source except as provided in this section.

Section 3—106. Sum Certain.

(1) The sum payable is a sum certain even though it is to be paid

(a) with stated interest or by stated installments; or

(b) with stated different rates of interest before and after default or a specified date; or

(c) with a stated discount or addition if paid before or after the date fixed for payment; or

(d) with exchange or less exchange, whether at a fixed rate or at the current rate; or

(e) with costs of collection or an attorney's fee or both upon default.

(2) Nothing in this section shall validate any term which is otherwise illegal.

Section 3—107. Money.

(1) An instrument is payable in money if the medium of exchange in which it is payable is money at the time the instrument is made. An instrument payable in "currency" or "current funds" is payable in money.

(2) A promise or order to pay a sum stated in a foreign currency is for a sum certain in money and, unless a different medium of payment is specified in the instrument, may be satisfied by payment of that number of dollars which the stated foreign currency will purchase at the buying sight rate for that currency on the day on which the instrument is payable or, if payable on demand, on the day of demand. If such an instrument specifies a foreign currency as the medium of payment the instrument is payable in that currency.

#### Section 3—108. Payable on Demand.

Instruments payable on demand include those payable at sight or on presentation and those in which no time for payment is stated.

#### Section 3—109. Definite Time.

(1) An instrument is payable at a definite time if by its terms it is payable

(a) on or before a stated date or at a fixed period after a stated date; or

(b) at a fixed period after sight; or

(c) at a definite time subject to any acceleration; or

(d) at a definite time subject to extension at the option of the holder, or to extension to a further definite time at the option of the maker or acceptor or automatically upon or after a specified act or event.

(2) An instrument which by its terms is otherwise payable only upon an act or event uncertain as to time of occurrence is not payable at a definite time even though the act or event has occurred.

#### Section 3—110. Payable to Order.

(1) An instrument is payable to order when by its terms it is payable to the order or assigns of any person therein specified with reasonable certainty, or to him or his order, or when it is conspicuously designated on its face as "exchange" or the like and names a payee. It may be payable to the order of

(a) the maker or drawer; or

(b) the drawee; or

(c) a payee who is not maker, drawer or drawee; or

(d) two or more payees together or in the alternative; or

(e) an estate, trust or fund, in which case it is payable to the order of the representative of such estate, trust or fund or his successors; or

(f) an office, or an officer by his title as such in which case it is payable to the principal but the incumbent of the office or his successors may act as if he or they were the holder; or

(g) a partnership or unincorporated association, in which case it is payable to the partnership or association and may be indorsed or transferred by any person thereto authorized.

(2) An instrument not payable to order is not made so payable by such words as "payable upon return of this instrument properly indorsed."

(3) An instrument made payable both to order and to bearer is payable to order unless the bearer words are handwritten or typewritten.

#### Section 3—111. Payable to Bearer.

An instrument is payable to bearer when by its terms it is payable to

(a) bearer or the order of bearer; or

(b) a specified person or bearer; or

(c) "cash" or the order of "cash," or any other indication which does not purport to designate a specific payee.

#### Section 3—112. Terms and Omissions Not Affecting Negotiability.

(1) The negotiability of an instrument is not affected by

(a) the omission of a statement of any consideration or of the place where the instrument is drawn or payable; or

(b) a statement that collateral has been given to secure obligations either on the instrument or otherwise of an obligor on the instrument or that in case of default on those obligations the holder may realize on or dispose of the collateral; or

(c) a promise or power to maintain or protect collateral or to give additional collateral; or

(d) a term authorizing a confession of judgment on the instrument if it is not paid when due; or

(e) a term purporting to waive the benefit of any law intended for the advantage or protection of any obligor; or

(f) a term in a draft providing that the payee by indorsing or cashing it acknowledges full satisfaction of an obligation of the drawer; or

(g) a statement in a draft drawn in a set of parts (Section 3—801) to the effect that the order is effective only if no other part has been honored.

(2) Nothing in this section shall validate any term which is otherwise illegal.

#### Section 3—113. Seal.

An instrument otherwise negotiable is within this Article even though it is under a seal.

#### Section 3—114. Date, Antedating, Postdating.

(1) The negotiability of an instrument is not affected by the fact that it is undated, antedated or postdated.

(2) Where an instrument is antedated or postdated the time when it is payable is determined by the stated date if the instrument is payable on demand or at a fixed period after date.

(3) Where the instrument or any signature thereon is dated, the date is presumed to be correct.

#### Section 3—115. Incomplete Instruments.

(1) When a paper whose contents at the time of signing show that it is intended to become an instrument is signed while still incomplete in any necessary respect it cannot be enforced until completed, but when it is completed in accordance with authority given it is effective as completed.

(2) If the completion is unauthorized the rules as to material alteration apply (Section 3—407), even though the paper was not delivered by the maker or drawer; but the burden of establishing that any completion is unauthorized is on the party so asserting.

#### Section 3—116. Instruments Payable to Two or More Persons.

An instrument payable to the order of two or more persons

(a) if in the alternative is payable to any one of them and may be negotiated, discharged or enforced by any of them who has possession of it;

(b) if not in the alternative is payable to all of them and may be negotiated, discharged or enforced only by all of them.

#### Section 3—117. Instruments Payable With Words of Description.

An instrument made payable to a named person with the addition of words describing him

(a) as agent or officer of a specified person is payable to his principal but the agent or officer may act as if he were the holder;

(b) as any other fiduciary for a specified person or purpose is payable to the payee and may be negotiated, discharged or enforced by him;

(c) in any other manner is payable to the payee unconditionally and the additional words are without effect on subsequent parties.

#### Section 3—118. Ambiguous Terms and Rules of Construction.

The following rules apply to every instrument:

(a) Where there is doubt whether the instrument is a draft or a note the holder may treat it as either. A draft drawn on the drawer is effective as a note.

(b) Handwritten terms control type-written and printed terms, and type-written control printed.

(c) Words control figures except that if the words are ambiguous figures control.

(d) Unless otherwise specified a provision for interest means interest at the judgment rate at the place of payment from the date of the instrument, or if it is undated from the date of issue.

(e) Unless the instrument otherwise specifies two or more persons who sign as maker, acceptor or drawer or indorser and as a part of the same transaction are jointly and severally liable even though the instrument contains such words as "I promise to pay."

(f) Unless otherwise specified consent to extension authorizes a single extension for not longer than the original period. A consent to extension, expressed in the instrument, is binding on secondary parties and accommodation makers. A holder may not exercise his option to extend an instrument over the objection of a maker or acceptor or other party who in accordance with Section 3—604 tenders full payment when the instrument is due.

#### Section 3—119. Other Writings Affecting Instrument.

(1) As between the obligor and his immediate obligee or any transferee the terms of an instrument may be modified or affected by any other written agreement executed as a part of the same transaction, except that a holder in due course is not affected by any limitation of his rights arising out of the separate written agreement if he had no notice of the limitation when he took the instrument.

(2) A separate agreement does not

affect the negotiability of an instrument.

**Section 3—120. Instruments "Payable Through" Bank.**

An instrument which states that it is "payable through" a bank or the like designates that bank as a collecting bank to make presentment but does not of itself authorize the bank to pay the instrument.

**Section 3—121. Instruments Payable at Bank.**

A note or acceptance which states that it is payable at a bank is the equivalent of a draft drawn on the bank payable when it falls due out of any funds of the maker or acceptor in current account or otherwise available for such payment.

**Section 3—122. Accrual of Cause of Action.**

(1) A cause of action against a maker or an acceptor accrues

(a) in the case of a time instrument on the day after maturity;

(b) in the case of a demand instrument upon its date or, if no date is stated, on the date of issue.

(2) A cause of action against the obligor of a demand or time certificate of deposit accrues upon demand, but demand on a time certificate may not be made until on or after the date of maturity.

(3) A cause of action against a drawer of a draft or an indorser of any instrument accrues upon demand following dishonor of the instrument. Notice of dishonor is a demand.

(4) Unless an instrument provides otherwise, interest runs at the rate provided by law for a judgment

(a) in the case of a maker, acceptor or other primary obligor of a demand instrument, from the date of demand;

(b) in all other cases from the date of accrual of the cause of action.

## PART 2

### TRANSFER AND NEGOTIATION

**Section 3—201. Transfer; Right to Indorsement.**

(1) Transfer of an instrument vests in the transferee such rights as the transferor has therein, except that a transferee who has himself been a party to any fraud or illegality affecting the instrument or who as a prior holder had notice of a defense or claim against it cannot improve his position by taking from a later holder in due course.

(2) A transfer of a security interest in an instrument vests the fore-

going rights in the transferee to the extent of the interest transferred.

(3) Unless otherwise agreed any transfer for value of an instrument not then payable to bearer gives the transferee the specifically enforceable right to have the unqualified indorsement of the transferor. Negotiation takes effect only when the indorsement is made and until that time there is no presumption that the transferee is the owner.

**Section 3—202. Negotiation.**

(1) Negotiation is the transfer of an instrument in such form that the transferee becomes a holder. If the instrument is payable to order it is negotiated by delivery with any necessary indorsement; if payable to bearer it is negotiated by delivery.

(2) An indorsement must be written by or on behalf of the holder and on the instrument or on a paper so firmly affixed thereto as to become a part thereof.

(3) An indorsement is effective for negotiation only when it conveys the entire instrument or any unpaid residue: If it purports to be of less it operates only as a partial assignment.

(4) Words of assignment, condition, waiver, guaranty, limitation or disclaimer of liability and the like accompanying an indorsement do not affect its character as an indorsement.

**Section 3—203. Wrong or Misspelled Name.**

Where an instrument is made payable to a person under a misspelled name or one other than his own he may indorse in that name or his own or both; but signature in both names may be required by a person paying or giving value for the instrument.

**Section 3—204. Special Indorsement; Blank Indorsement.**

(1) A special indorsement specifies the person to whom or to whose order it makes the instrument payable. Any instrument specially indorsed becomes payable to the order of the special indorsee and may be further negotiated only by his indorsement.

(2) An indorsement in blank specifies no particular indorsee and may consist of a mere signature. An instrument payable to order and indorsed in blank becomes payable to bearer and may be negotiated by delivery alone until specially indorsed.

(3) The holder may convert a blank indorsement into a special indorsement by writing over the signature of the indorser in blank any contract con-

sistent with the character of the indorsement.

Section 3—205. Restrictive Indorsements.

An indorsement is restrictive which either

- (a) is conditional; or
- (b) purports to prohibit further transfer of the instrument; or
- (c) includes the words "for collection," "for deposit," "pay any bank," or like terms signifying a purpose of deposit or collection; or
- (d) otherwise states that it is for the benefit or use of the indorser or of another person.

Section 3—206. Effect of Restrictive Indorsement.

(1) No restrictive indorsement prevents further transfer or negotiation of the instrument.

(2) An intermediary bank, or a payor bank which is not the depository bank, is neither given notice nor otherwise affected by a restrictive indorsement of any person except the bank's immediate transferor or the person presenting for payment.

(3) Except for an intermediary bank, any transferee under an indorsement which is conditioned or includes the words "for collection," "for deposit," "pay any bank," or like terms (subparagraphs (a) and (c) of Section 3—205) must pay or apply any value given by him for or on the security of the instrument consistently with the indorsement and to the extent that he does so he becomes a holder for value. In addition such transferee is a holder in due course if he otherwise complies with the requirements of Section 3—302 on what constitutes a holder in due course.

(4) The first taker under an indorsement for the benefit of the indorser or another person (subparagraph (d) of Section 3—205) must pay or apply any value given by him for or on the security of the instrument consistently with the indorsement and to the extent that he does so he becomes a holder for value. In addition such taker is a holder in due course if he otherwise complies with the requirements of Section 3—302 on what constitutes a holder in due course. A later holder for value is neither given notice nor otherwise affected by such restrictive indorsement unless he has knowledge that a fiduciary or other person has negotiated the instrument in any transaction for his own benefit or other-

wise in breach of duty (subsection (2) of Section 3—304).

Section 3—207. Negotiation Effective Although It May Be Rescinded.

(1) Negotiation is effective to transfer the instrument although the negotiation is

- (a) made by an infant, a corporation exceeding its powers, or any other person without capacity; or
- (b) obtained by fraud, duress or mistake of any kind; or
- (c) part of an illegal transaction; or
- (d) made in breach of duty.

(2) Except as against a subsequent holder in due course such negotiation is in an appropriate case subject to rescission, the declaration of a constructive trust or any other remedy permitted by law.

Section 3—208. Reacquisition.

Where an instrument is returned to or reacquired by a prior party he may cancel any indorsement which is not necessary to his title and re-issue or further negotiate the instrument, but any intervening party is discharged as against the reacquiring party and subsequent holders not in due course and if his indorsement has been cancelled is discharged as against subsequent holders in due course as well.

### PART 3

#### RIGHTS OF A HOLDER

Section 3—301. Rights of a Holder.

The holder of an instrument whether or not he is the owner may transfer or negotiate it and, except as otherwise provided in Section 3—603 on payment or satisfaction, discharge it or enforce payment in his own name.

Section 3—302. Holder in Due Course.

(1) A holder in due course is a holder who takes the instrument

- (a) for value; and
- (b) in good faith; and
- (c) without notice that it is overdue or has been dishonored or of any defense against or claim to it on the part of any person.

(2) A payee may be a holder in due course.

(3) A holder does not become a holder in due course of an instrument:

- (a) by purchase of it at judicial sale or by taking it under legal process; or
- (b) by acquiring it in taking over an estate; or
- (c) by purchasing it as part of a



bulk transaction not in regular course of business of the transferor.

(4) A purchaser of a limited interest can be a holder in due course only to the extent of the interest purchased.

#### Section 3—303. Taking for Value.

A holder takes the instrument for value

(a) to the extent that the agreed consideration has been performed or that he acquires a security interest in or a lien on the instrument otherwise than by legal process; or

(b) when he takes the instrument in payment of or as security for an antecedent claim against any person whether or not the claim is due; or

(c) when he gives a negotiable instrument for it or makes an irrevocable commitment to a third person.

#### Section 3—304. Notice to Purchaser.

(1) The purchaser has notice of a claim or defense if

(a) the instrument is so incomplete, bears such visible evidence of forgery or alteration, or is otherwise so irregular as to call into question its validity, terms or ownership or to create an ambiguity as to the party to pay; or

(b) the purchaser has notice that the obligation of any party is voidable in whole or in part, or that all parties have been discharged.

(2) The purchaser has notice of a claim against the instrument when he has knowledge that a fiduciary has negotiated the instrument in payment of or as security for his own debt or in any transaction for his own benefit or otherwise in breach of duty.

(3) The purchaser has notice that an instrument is overdue if he has reason to know

(a) that any part of the principal amount is overdue or that there is an uncured default in payment of another instrument of the same series; or

(b) that acceleration of the instrument has been made; or

(c) that he is taking a demand instrument after demand has been made or more than a reasonable length of time after its issue. A reasonable time for a check drawn and payable within the states and territories of the United States and the District of Columbia is presumed to be thirty days.

(4) Knowledge of the following facts does not of itself give the purchaser notice of a defense or claim

(a) that the instrument is ante-dated or postdated;

(b) that it was issued or negotiated in return for an executory promise or accompanied by a separate agreement, unless the purchaser has notice that a defense or claim has arisen from the terms thereof;

(c) that any party has signed for accommodation;

(d) that an incomplete instrument has been completed, unless the purchaser has notice of any improper completion;

(e) that any person negotiating the instrument is or was a fiduciary;

(f) that there has been default in payment of interest on the instrument or in payment of any other instrument, except one of the same series.

(5) The filing or recording of a document does not of itself constitute notice within the provisions of this Article to a person who would otherwise be a holder in due course.

(6) To be effective notice must be received at such time and in such manner as to give a reasonable opportunity to act on it.

#### Section 3—305. Rights of a Holder in Due Course.

To the extent that a holder is a holder in due course he takes the instrument free from

(1) all claims to it on the part of any person; and

(2) all defenses of any party to the instrument with whom the holder has not dealt except

(a) infancy, to the extent that it is a defense to a simple contract; and

(b) such other incapacity, or duress, or illegality of the transaction, as renders the obligation of the party a nullity; and

(c) such misrepresentation as has induced the party to sign the instrument with neither knowledge nor reasonable opportunity to obtain knowledge of its character or its essential terms; and

(d) discharge in insolvency proceedings; and

(e) any other discharge of which the holder has notice when he takes the instrument.

#### Section 3—306. Rights of One Not Holder in Due Course.

Unless he has the rights of a holder in due course any person takes the instrument subject to

(a) all valid claims to it on the part of any person; and

(b) all defenses of any party which

would be available in an action on a simple contract; and

(c) the defenses of want or failure of consideration, nonperformance of any condition precedent, non-delivery, or delivery for a special purpose (Section 3—408); and

(d) the defense that he or a person through whom he holds the instrument acquired it by theft, or that payment or satisfaction to such holder would be inconsistent with the terms of a restrictive indorsement. The claim of any third person to the instrument is not otherwise available as a defense to any party liable thereon unless the third person himself defends the action for such party.

Section 3—307. Burden of Establishing Signatures, Defenses and Due Course.

(1) Unless specifically denied in the pleadings each signature on an instrument is admitted. When the effectiveness of a signature is put in issue

(a) the burden of establishing it is on the party claiming under the signature; but

(b) the signature is presumed to be genuine or authorized except where the action is to enforce the obligation of a purported signer who has died or become incompetent before proof is required.

(2) When signatures are admitted or established, production of the instrument entitles a holder to recover on it unless the defendant establishes a defense.

(3) After it is shown that a defense exists a person claiming the rights of a holder in due course has the burden of establishing that he or some person under whom he claims is in all respects a holder in due course.

#### PART 4

#### LIABILITY OF PARTIES

Section 3—401. Signature.

(1) No person is liable on an instrument unless his signature appears thereon.

(2) A signature is made by use of any name, including any trade or assumed name, upon an instrument, or by any word or mark used in lieu of a written signature.

Section 3—402. Signature in Ambiguous Capacity.

Unless the instrument clearly indicates that a signature is made in some other capacity it is an indorsement.

Section 3—403. Signature by Authorized Representative.

(1) A signature may be made by an agent or other representative, and his authority to make it may be established as in other cases of representation. No particular form of appointment is necessary to establish such authority.

(2) An authorized representative who signs his own name to an instrument

(a) is personally obligated if the instrument neither names the person represented nor shows that the representative signed in a representative capacity;

(b) except as otherwise established between the immediate parties, is personally obligated if the instrument names the person represented but does not show that the representative signed in a representative capacity, or if the instrument does not name the person represented but does show that the representative signed in a representative capacity.

(3) Except as otherwise established the name of an organization preceded or followed by the name and office of an authorized individual is a signature made in a representative capacity.

Section 3—404. Unauthorized Signatures.

(1) Any unauthorized signature is wholly inoperative as that of the person whose name is signed unless he ratifies it or is precluded from denying it; but it operates as the signature of the unauthorized signer in favor of any person who in good faith pays the instrument or takes it for value.

(2) Any unauthorized signature may be ratified for all purposes of this Article. Such ratification does not of itself affect any rights of the person ratifying against the actual signer.

Section 3—405. Impostors; Signature in Name of Payee.

(1) An indorsement by any person in the name of a named payee is effective if

(a) an impostor by use of the mails or otherwise has induced the maker or drawer to issue the instrument to him or his confederate in the name of the payee; or

(b) a person signing as or on behalf of a maker or drawer intends the payee to have no interest in the instrument; or

(c) an agent or employee of the

maker or drawer has supplied him with the name of the payee intending the latter to have no such interest.

(2) Nothing in this section shall affect the criminal or civil liability of the person so indorsing.

**Section 3—406. Negligence Contributing to Alteration or Unauthorized Signature.**

Any person who by his negligence substantially contributes to a material alteration of the instrument or to the making of an unauthorized signature is precluded from asserting the alteration or lack of authority against a holder in due course or against a drawee or other payor who pays the instrument in good faith and in accordance with the reasonable commercial standards of the drawee's or payor's business.

**Section 3—407. Alteration.**

(1) Any alteration of an instrument is material which changes the contract of any party thereto in any respect, including any such change in

(a) the number or relations of the parties; or

(b) an incomplete instrument, by completing it otherwise than as authorized; or

(c) the writing as signed, by adding to it or by removing any part of it.

(2) As against any person other than a subsequent holder in due course

(a) alteration by the holder which is both fraudulent and material discharges any party whose contract is thereby changed unless that party assents or is precluded from asserting the defense;

(b) no other alteration discharges any party and the instrument may be enforced according to its original tenor, or as to incomplete instruments according to the authority given.

(3) A subsequent holder in due course may in all cases enforce the instrument according to its original tenor, and when an incomplete instrument has been completed, he may enforce it as completed.

**Section 3—408. Consideration.**

Want or failure of consideration is a defense as against any person not having the rights of a holder in due course (Section 3—305), except that no consideration is necessary for an instrument or obligation thereon given in payment of or as security for an antecedent obligation of any kind. Nothing in this section shall be taken

to displace any statute outside this Act under which a promise is enforceable notwithstanding lack or failure of consideration. Partial failure of consideration is a defense pro tanto whether or not the failure is in an ascertained or liquidated amount.

**Section 3—409. Draft Not an Assignment.**

(1) A check or other draft does not of itself operate as an assignment of any funds in the hands of the drawee available for its payment, and the drawee is not liable on the instrument until he accepts it.

(2) Nothing in this section shall affect any liability in contract, tort or otherwise arising from any letter of credit or other obligation or representation which is not an acceptance.

**Section 3—410. Definition and Operation of Acceptance.**

(1) Acceptance is the drawee's signed engagement to honor the draft as presented. It must be written on the draft, and may consist of his signature alone. It becomes operative when completed by delivery or notification.

(2) A draft may be accepted although it has not been signed by the drawer or is otherwise incomplete or is overdue or has been dishonored.

(3) Where the draft is payable at a fixed period after sight and the acceptor fails to date his acceptance the holder may complete it by supplying a date in good faith.

**Section 3—411. Certification of a Check.**

(1) Certification of a check is acceptance. Where a holder procures certification the drawer and all prior indorsers are discharged.

(2) Unless otherwise agreed a bank has no obligation to certify a check.

(3) A bank may certify a check before returning it for lack of proper indorsement. If it does so the drawer is discharged.

**Section 3—412. Acceptance Varying Draft.**

(1) Where the drawee's proffered acceptance in any manner varies the draft as presented the holder may refuse the acceptance and treat the draft as dishonored in which case the drawee is entitled to have his acceptance cancelled.

(2) The terms of the draft are not varied by an acceptance to pay at any particular bank or place in the United States, unless the acceptance

states that the draft is to be paid only at such bank or place.

(3) Where the holder assents to an acceptance varying the terms of the draft each drawer and indorser who does not affirmatively assent is discharged.

Section 3—413. Contract of Maker, Drawer and Acceptor.

(1) The maker or acceptor engages that he will pay the instrument according to its tenor at the time of his engagement or as completed pursuant to Section 3—115 on incomplete instruments.

(2) The drawer engages that upon dishonor of the draft and any necessary notice of dishonor or protest he will pay the amount of the draft to the holder or to any indorser who takes it up. The drawer may disclaim this liability by drawing without recourse.

(3) By making, drawing or accepting the party admits as against all subsequent parties including the drawee the existence of the payee and his then capacity to indorse.

Section 3—414. Contract of Indorser; Order of Liability.

(1) Unless the indorsement otherwise specifies (as by such words as "without recourse") every indorser engages that upon dishonor and any necessary notice of dishonor and protest he will pay the instrument according to its tenor at the time of his indorsement to the holder or to any subsequent indorser who takes it up, even though the indorser who takes it up was not obligated to do so.

(2) Unless they otherwise agree indorsers are liable to one another in the order in which they indorse, which is presumed to be the order in which their signatures appear on the instrument.

Section 3—415. Contract of Accommodation Party.

(1) An accommodation party is one who signs the instrument in any capacity for the purpose of lending his name to another party to it.

(2) When the instrument has been taken for value before it is due the accommodation party is liable in the capacity in which he has signed even though the taker knows of the accommodation.

(3) As against a holder in due course and without notice of the accommodation oral proof of the accommodation is not admissible to give the accommodation party the benefit of discharges dependent on his char-

acter as such. In other cases the accommodation character may be shown by oral proof.

(4) An indorsement which shows that it is not in the chain of title is notice of its accommodation character.

(5) An accommodation party is not liable to the party accommodated, and if he pays the instrument has a right of recourse on the instrument against such party.

Section 3—416. Contract of Guarantor.

(1) "Payment guaranteed" or equivalent words added to a signature mean that the signer engages that if the instrument is not paid when due he will pay it according to its tenor without resort by the holder to any other party.

(2) "Collection guaranteed" or equivalent words added to a signature mean that the signer engages that if the instrument is not paid when due he will pay it according to its tenor, but only after the holder has reduced his claim against the maker or acceptor to judgment and execution has been returned unsatisfied, or after the maker or acceptor has become insolvent or it is otherwise apparent that it is useless to proceed against him.

(3) Words of guaranty which do not otherwise specify guarantee payment.

(4) No words of guaranty added to the signature of a sole maker or acceptor affect his liability on the instrument. Such words added to the signature of one of two or more makers or acceptors create a presumption that the signature is for the accommodation of the others.

(5) When words of guaranty are used presentment, notice of dishonor and protest are not necessary to charge the user.

(6) Any guaranty written on the instrument is enforceable notwithstanding any statute of frauds.

Section 3—417. Warranties on Presentment and Transfer.

(1) Any person who obtains payment or acceptance and any prior transferor warrants to a person who in good faith pays or accepts that

(a) he has a good title to the instrument or is authorized to obtain payment or acceptance on behalf of one who has a good title; and

(b) he has no knowledge that the signature of the maker or drawer is unauthorized, except that this war-

ranty is not given by a holder in due course acting in good faith

(i) to a maker with respect to the maker's own signature; or

(ii) to a drawer with respect to the drawer's own signature, whether or not the drawer is also the drawee; or

(iii) to an acceptor of a draft if the holder in due course took the draft after the acceptance or obtained the acceptance without knowledge that the drawer's signature was unauthorized; and

(c) the instrument has not been materially altered, except that this warranty is not given by a holder in due course acting in good faith

(i) to the maker of a note; or

(ii) to the drawer of a draft whether or not the drawer is also the drawee; or

(iii) to the acceptor of a draft with respect to an alteration made prior to the acceptance if the holder in due course took the draft after the acceptance, even though the acceptance provided "payable as originally drawn" or equivalent terms; or

(iv) to the acceptor of a draft with respect to an alteration made after the acceptance.

(2) Any person who transfers an instrument and receives consideration warrants to his transferee and if the transfer is by indorsement to any subsequent holder who takes the instrument in good faith that

(a) he has a good title to the instrument or is authorized to obtain payment or acceptance on behalf of one who has a good title and the transfer is otherwise rightful; and

(b) all signatures are genuine or authorized; and

(c) the instrument has not been materially altered; and

(d) no defense of any party is good against him; and

(e) he has no knowledge of any insolvency proceeding instituted with respect to the maker or acceptor or the drawer of an unaccepted instrument.

(3) By transferring "without recourse" the transferor limits the obligation stated in subsection (2)(d) to a warranty that he has no knowledge of such a defense.

(4) A selling agent or broker who does not disclose the fact that he is acting only as such gives the warranties provided in this section, but if he makes such disclosure warrants only his good faith and authority.

Section 3—418. Finality of Payment or Acceptance.

Except for recovery of bank payments as provided in the Article on Bank Deposits and Collections (Article 4) and except for liability for breach of warranty on presentment under the preceding section, payment or acceptance of any instrument is final in favor of a holder in due course, or a person who has in good faith changed his position in reliance on the payment.

Section 3—419. Conversion of Instrument; Innocent Representative.

(1) An instrument is converted when

(a) a drawee to whom it is delivered for acceptance refuses to return it on demand; or

(b) any person to whom it is delivered for payment refuses on demand either to pay or to return it; or

(c) it is paid on a forged indorsement.

(2) In an action against a drawee under subsection (1) the measure of the drawee's liability is the face amount of the instrument. In any other action under subsection (1) the measure of liability is presumed to be the face amount of the instrument.

(3) Subject to the provisions of this Act concerning restrictive indorsements a representative, including a depositary or collecting bank, who has in good faith and in accordance with the reasonable commercial standards applicable to the business of such representative dealt with an instrument or its proceeds on behalf of one who was not the true owner is not liable in conversion or otherwise to the true owner beyond the amount of any proceeds remaining in his hands.

(4) An intermediary bank or payor bank which is not a depositary bank is not liable in conversion solely by reason of the fact that proceeds of an item indorsed restrictively (Sections 3—205 and 3—206) are not paid or applied consistently with the restrictive indorsement of an indorser other than its immediate transferor.

#### PART 5

#### PRESENTMENT, NOTICE OF DISHONOR AND PROTEST

Section 3—501. When Presentment, Notice of Dishonor, and Protest Necessary or Permissible.

(1) Unless excused (Section 3—511) presentment is necessary to charge secondary parties as follows:

(a) presentment for acceptance is necessary to charge the drawer and indorsers of a draft where the draft so provides, or is payable elsewhere than at the residence or place of business of the drawee, or its date of payment depends upon such presentment. The holder may at his option present for acceptance any other draft payable at a stated date;

(b) Presentment for payment is necessary to charge any endorser;

(c) in the case of any drawer, the acceptor of a draft payable at a bank or the maker of a note payable at a bank, presentment for payment is necessary, but failure to make presentment discharges such drawer, acceptor or maker only as stated in Section 3—502 (1) (b).

(2) Unless excused (Section 3—511)

(a) notice of any dishonor is necessary to charge any indorser;

(b) in the case of any drawer, the acceptor of a draft payable at a bank or the maker of a note payable at a bank, notice of any dishonor is necessary, but failure to give such notice discharges such drawer, acceptor or maker only as stated in Section 3—502 (1) (b).

(3) Unless excused (Section 3—511) protest of any dishonor is necessary to charge the drawer and indorsers of any draft which on its face appears to be drawn or payable outside of the states and territories of the United States and the District of Columbia. The holder may at his option make protest of any dishonor of any other instrument and in the case of a foreign draft may on insolvency of the acceptor before maturity make protest for better security.

(4) Notwithstanding any provision of this section, neither presentment nor notice of dishonor nor protest is necessary to charge an indorser who has indorsed an instrument after maturity.

Section 3—502. Unexcused Delay; Discharge.

(1) Where without excuse any necessary presentment or notice of dishonor is delayed beyond the time when it is due

(a) any indorser is discharged; and

(b) any drawer or the acceptor of a draft payable at a bank or the maker of a note payable at a bank who because the drawee or payor bank becomes insolvent during the delay is deprived of funds maintained with the drawee or payor bank to

cover the instrument may discharge his liability by written assignment to the holder of his rights against the drawee or payor bank in respect of such funds, but such drawer, acceptor or maker is not otherwise discharged.

(2) Where without excuse a necessary protest is delayed beyond the time when it is due any drawer or indorser is discharged.

Section 3—503. Time of Presentment.

(1) Unless a different time is expressed in the instrument the time for any presentment is determined as follows:

(a) where an instrument is payable at or a fixed period after a stated date any presentment for acceptance must be made on or before the date it is payable;

(b) where an instrument is payable after sight it must either be presented for acceptance or negotiated within a reasonable time after date or issue whichever is later;

(c) where an instrument shows the date on which it is payable presentment for payment is due on that date;

(d) where an instrument is accelerated presentment for payment is due within a reasonable time after the acceleration;

(e) with respect to the liability of any secondary party presentment for acceptance or payment of any other instrument is due within a reasonable time after such party becomes liable thereon.

(2) A reasonable time for presentment is determined by the nature of the instrument, any usage of banking or trade and the facts of the particular case. In the case of an uncertified check which is drawn and payable within the United States and which is not a draft drawn by a bank the following are presumed to be reasonable periods within which to present for payment or to initiate bank collection:

(a) with respect to the liability of the drawer, thirty days after date or issue whichever is later; and

(b) with respect to the liability of an endorser, seven days after his indorsement.

(3) Where any presentment is due on a day which is not a full business day for either the person making presentment or the party to pay or accept, presentment is due on the next following day which is a full business day for both parties.

(4) Presentment to be sufficient

must be made at a reasonable hour, and if at a bank during its banking day.

**Section 3—504. How Presentment Made.**

(1) Presentment is a demand for acceptance or payment made upon the maker, acceptor, drawee or other payor by or on behalf of the holder.

(2) Presentment may be made

(a) by mail, in which event the time of presentment is determined by the time of receipt of the mail; or

(b) through a clearing house; or

(c) at the place of acceptance or payment specified in the instrument or if there be none at the place of business or residence of the party to accept or pay. If neither the party to accept or pay nor anyone authorized to act for him is present or accessible at such place presentment is excused.

(3) It may be made

(a) to any one of two or more makers, acceptors, drawees or other payors; or

(b) to any person who has authority to make or refuse the acceptance or payment.

(4) A draft accepted or a note made payable at a bank in the United States must be presented at such bank.

(5) In the cases described in Section 4—210 presentment may be made in the manner and with the result stated in that section.

**Section 3—505. Rights of Party to Whom Presentment Is Made.**

(1) The party to whom presentment is made may without dishonor require

(a) exhibition of the instrument; and

(b) reasonable identification of the person making presentment and evidence of his authority to make it if made for another; and

(c) that the instrument be produced for acceptance or payment at a place specified in it, or if there be none at any place reasonable in the circumstances; and

(d) a signed receipt on the instrument for any partial or full payment and its surrender upon full payment.

(2) Failure to comply with any such requirement invalidates the presentment but the person presenting has a reasonable time in which to comply and the time for acceptance or payment runs from the time of compliance.

**Section 3—506. Time Allowed for Acceptance or Payment.**

(1) Acceptance may be deferred without dishonor until the close of the next business day following presentment. The holder may also in a good faith effort to obtain acceptance and without either dishonor of the instrument or discharge of secondary parties allow postponement of acceptance for an additional business day.

(2) Except as a longer time is allowed in the case of documentary drafts drawn under a letter of credit, and unless an earlier time is agreed to by the party to pay, payment of an instrument may be deferred without dishonor pending reasonable examination to determine whether it is properly payable, but payment must be made in any event before the close of business on the day of presentment.

**Section 3—507. Dishonor; Holder's Right of Recourse; Term Allowing Re-Presentment.**

(1) An instrument is dishonored when

(a) a necessary or optional presentment is duly made and due acceptance or payment is refused or cannot be obtained within the prescribed time or in case of bank collections the instrument is seasonably returned by the midnight deadline (Section 4—301); or

(b) presentment is excused and the instrument is not duly accepted or paid.

(2) Subject to any necessary notice of dishonor and protest, the holder has upon dishonor an immediate right of recourse against the drawers and indorsers.

(3) Return of an instrument for lack of proper indorsement is not dishonor.

(4) A term in a draft or an indorsement thereof allowing a stated time for re-presentment in the event of any dishonor of the draft by non-acceptance if a time draft or by non-payment if a sight draft gives the holder as against any secondary party bound by the term an option to waive the dishonor without affecting the liability of the secondary party and he may present again up to the end of the stated time.

**Section 3—508. Notice of Dishonor.**

(1) Notice of dishonor may be given to any person who may be liable on the instrument by or on behalf of the holder or any party who has himself received notice, or any other party who can be compelled to pay the instrument. In addition an agent or

bank in whose hands the instrument is dishonored may give notice to his principal or customer or to another agent or bank from which the instrument was received.

(2) Any necessary notice must be given by a bank before its midnight deadline and by any other person before midnight of the third business day after dishonor or receipt of notice of dishonor.

(3) Notice may be given in any reasonable manner. It may be oral or written and in any terms which identify the instrument and state that it has been dishonored. A misdescription which does not mislead the party notified does not vitiate the notice. Sending the instrument bearing a stamp, ticket or writing stating that acceptance or payment has been refused or sending a notice of debit with respect to the instrument is sufficient.

(4) Written notice is given when sent although it is not received.

(5) Notice to one partner is notice to each although the firm has been dissolved.

(6) When any party is in insolvency proceedings instituted after the issue of the instrument notice may be given either to the party or to the representative of his estate.

(7) When any party is dead or incompetent notice may be sent to his last known address or given to his personal representative.

(8) Notice operates for the benefit of all parties who have rights on the instrument against the party notified.

Section 3—509. Protest; Noting for Protest.

(1) A protest is a certificate of dishonor made under the hand and seal of a United States consul or vice consul or a notary public or other person authorized to certify dishonor by the law of the place where dishonor occurs. It may be made upon information satisfactory to such person.

(2) The protest must identify the instrument and certify either that due presentment has been made or the reason why it is excused and that the instrument has been dishonored by nonacceptance or nonpayment.

(3) The protest may also certify that notice of dishonor has been given to all parties or to specified parties.

(4) Subject to subsection (5) any necessary protest is due by the time that notice of dishonor is due.

(5) If, before protest is due, an instrument has been noted for protest by the officer to make protest,

the protest may be made at any time thereafter as of the date of the noting.

Section 3—510. Evidence of Dishonor and Notice of Dishonor.

The following are admissible as evidence and create a presumption of dishonor and of any notice of dishonor therein shown:

(a) a document regular in form as provided in the preceding section which purports to be a protest;

(b) the purported stamp or writing of the drawee, payor bank or presenting bank on the instrument or accompanying it stating that acceptance or payment has been refused for reasons consistent with dishonor;

(c) any book or record of the drawee, payor bank, or any collecting bank kept in the usual course of business which shows dishonor, even though there is no evidence of who made the entry.

Section 3—511. Waived or Excused Presentment, Protest or Notice of Dishonor or Delay Therein.

(1) Delay in presentment, protest or notice of dishonor is excused when the party is without notice that it is due or when the delay is caused by circumstances beyond his control and he exercises reasonable diligence after the cause of the delay ceases to operate.

(2) Presentment or notice or protest as the case may be is entirely excused when

(a) the party to be charged has waived it expressly or by implication either before or after it is due; or

(b) such party has himself dishonored the instrument or has countermanded payment or otherwise has no reason to expect or right to require that the instrument be accepted or paid; or

(c) by reasonable diligence the presentment or protest cannot be made or the notice given.

(3) Presentment is also entirely excused when

(a) the maker, acceptor or drawee of any instrument except a documentary draft is dead or in insolvency proceedings instituted after the issue of the instrument; or

(b) acceptance or payment is refused but not for want of proper presentment.

(4) Where a draft has been dishonored by nonacceptance a later presentment for payment and any notice of dishonor and protest for nonpay-



ment are excused unless in the meantime the instrument has been accepted.

(5) A waiver of protest is also a waiver of presentment and of notice of dishonor even though protest is not required.

(6) Where a waiver of presentment or notice or protest is embodied in the instrument itself it is binding upon all parties; but where it is written above the signature of an indorser it binds him only.

#### PART 6 DISCHARGE

Section 3—601. Discharge of Parties.

(1) The extent of the discharge of any party from liability on an instrument is governed by the sections on

(a) payment or satisfaction (Section 3—603); or

(b) tender of payment (Section 3—604); or

(c) cancellation or renunciation (Section 3—605); or

(d) impairment of right of recourse or of collateral (Section 3—606); or

(e) reacquisition of the instrument by a prior party (Section 3—208); or

(f) fraudulent and material alteration (Section 3—407); or

(g) certification of a check (Section 3—411); or

(h) acceptance varying a draft (Section 3—412); or

(i) unexcused delay in presentment or notice of dishonor or protest (Section 3—502).

(2) Any party is also discharged from his liability on an instrument to another party by any other act or agreement with such party which would discharge his simple contract for the payment of money.

(3) The liability of all parties is discharged when any party who has himself no right of action or recourse on the instrument

(a) reacquires the instrument in his own right; or

(b) is discharged under any provision of this Article, except as otherwise provided with respect to discharge for impairment of recourse or of security (Section 3—606).

Section 3—602. Effect of Discharge Against Holder in Due Course.

No discharge of any party provided by this Article is effective against a subsequent holder in due

course unless he has notice thereof when he takes the instrument.

Section 3—603. Payment or Satisfaction.

(1) The liability of any party is discharged to the extent of his payment or satisfaction to the holder even though it is made with knowledge of a claim of another person to the instrument unless prior to such payment or satisfaction the person making the claim either supplies indemnity deemed adequate by the party seeking the discharge or enjoins payment or satisfaction by order of a court of competent jurisdiction in an action in which the adverse claimant and the holder are parties. This subsection does not, however, result in the discharge of the liability

(a) of a party who in bad faith pays or satisfies a holder who acquired the instrument by theft or who (unless having the rights of a holder in due course) holds through one who so acquired it; or

(b) of a party (other than an intermediary bank or a payor bank which is not a depository bank) who pays or satisfies the holder of an instrument which has been restrictively indorsed in a manner not consistent with the terms of such restrictive indorsement.

(2) Payment or satisfaction may be made with the consent of the holder by any person including a stranger to the instrument. Surrender of the instrument to such a person gives him the rights of a transferee (Section 3—201).

Section 3—604. Tender of Payment.

(1) Any party making tender of full payment to a holder when or after it is due is discharged to the extent of all subsequent liability for interest, costs and attorney's fees.

(2) The holder's refusal of such tender wholly discharges any party who has a right of recourse against the party making the tender.

(3) Where the maker or acceptor of an instrument payable otherwise than on demand is able and ready to pay at every place of payment specified in the instrument when it is due, it is equivalent to tender.

Section 3—605. Cancellation and Renunciation.

(1) The holder of an instrument may even without consideration discharge any party

(a) in any manner apparent on the face of the instrument or the indorsement, as by intentionally cancelling the instrument or the party's signature by destruction or mutilation, or by striking out the party's signature; or

(b) by renouncing his rights by a writing signed and delivered or by surrender of the instrument to the party to be discharged.

(2) Neither cancellation nor renunciation without surrender of the instrument affects the title thereto.

Section 3—606. Impairment of Recourse or of Collateral.

(1) The holder discharges any party to the instrument to the extent that without such party's consent the holder

(a) without express reservation of rights releases or agrees not to sue any person against whom the party has to the knowledge of the holder a right of recourse or agrees to suspend the right to enforce against such person the instrument or collateral or otherwise discharges such person, except that failure or delay in effecting any required presentment, protest or notice of dishonor with respect to any such person does not discharge any party as to whom presentment, protest or notice of dishonor is effective or unnecessary; or

(b) unjustifiably impairs any collateral for the instrument given by or on behalf of the party or any person against whom he has a right of recourse.

(2) By express reservation of rights against a party with a right of recourse the holder preserves

(a) all his rights against such party as of the time when the instrument was originally due; and

(b) the right of the party to pay the instrument as of that time; and

(c) all rights of such party to recourse against others.

#### PART 7

##### ADVICE OF INTERNATIONAL SIGHT DRAFT

Section 3—701. Letter of Advice of International Sight Draft.

(1) A "letter of advice" is a drawer's communication to the drawer that a described draft has been drawn.

(2) Unless otherwise agreed when a bank receives from another bank a letter of advice of an international sight draft the drawee bank may im-

mediately debit the drawer's account and stop the running of interest pro tanto. Such a debit and any resulting credit to any account covering outstanding drafts leaves in the drawer full power to stop payment or otherwise dispose of the amount and creates no trust or interest in favor of the holder.

(3) Unless otherwise agreed and except where a draft is drawn under a credit issued by the drawee, the drawee of an international sight draft owes the drawer no duty to pay an unadvised draft but if it does so and the draft is genuine, may appropriately debit the drawer's account.

#### PART 8

##### MISCELLANEOUS

Section 3—801. Drafts in a Set.

(1) Where a draft is drawn in a set of parts, each of which is numbered and expressed to be an order only if no other part has been honored, the whole of the parts constitutes one draft but a taker of any part may become a holder in due course of the draft.

(2) Any person who negotiates, indorses or accepts a single part of a draft drawn in a set thereby becomes liable to any holder in due course of that part as if it were the whole set, but as between different holders in due course to whom different parts have been negotiated the holder whose title first accrues has all rights to the draft and its proceeds.

(3) As against the drawee the first presented part of a draft drawn in a set is the part entitled to payment, or if a time draft to acceptance and payment. Acceptance of any subsequently presented part renders the drawee liable thereon under subsection (2). With respect both to a holder and to the drawer payment of a subsequently presented part of a draft payable at sight has the same effect as payment of a check notwithstanding an effective stop order (Section 4—407).

(4) Except as otherwise provided in this section, where any part of a draft in a set is discharged by payment or otherwise the whole draft is discharged.

Section 3—802. Effect of Instrument on Obligation for Which It Is Given.

(1) Unless otherwise agreed where an instrument is taken for an underlying obligation.

(a) the obligation is pro tanto dis-

charged if a bank is drawer, maker or acceptor of the instrument and there is no recourse on the instrument against the underlying obligor; and

(b) in any other case the obligation is suspended pro tanto until the instrument is due or if it is payable on demand until its presentment. If the instrument is dishonored action may be maintained on either the instrument or the obligation; discharge of the underlying obligor on the instrument also discharges him on the obligation.

(2) The taking in good faith of a check which is not postdated does not of itself so extend the time on the original obligation as to discharge a surety.

#### Section 3—803. Notice to Third Party.

Where a defendant is sued for breach of an obligation for which a third person is answerable over under this Article he may give the third person written notice of the litigation, and the person notified may then give similar notice to any other person who is answerable over to him under this Article. If the notice states that the person notified may come in and defend and that if the person notified does not do so he will in any action against him by the person giving the notice be bound by any determination of fact common to the two litigations, then unless after seasonable receipt of the notice the person notified does come in and defend he is so bound.

#### Section 3—804. Lost, Destroyed or Stolen Instruments.

The owner of an instrument which is lost, whether by destruction, theft or otherwise, may maintain an action in his own name and recover from any party liable thereon upon due proof of his ownership, the facts which prevent his production of the instrument and its terms. The court may require security indemnifying the defendant against loss by reason of further claims on the instrument.

#### Section 3—805. Instruments Not Payable to Order or to Bearer.

This Article applies to any instrument whose terms do not preclude transfer and which is otherwise negotiable within this Article but which is not payable to order or to bearer, except that there can be no holder in due course of such an instrument.

## ARTICLE 4 BANK DEPOSITS AND COLLECTIONS

### PART 1

#### GENERAL PROVISIONS AND DEFINITIONS

##### Section 4—101. Short Title.

This Article shall be known and may be cited as Uniform Commercial Code—Bank Deposits and Collections.

##### Section 4—102. Applicability.

(1) To the extent that items within this Article are also within the scope of Articles 3 and 8, they are subject to the provisions of those Articles. In the event of conflict the provisions of this Article govern those of Article 3 but the provisions of Article 8 govern those of this Article.

(2) The liability of a bank for action or non-action with respect to any item handled by it for purposes of presentment, payment or collection is governed by the law of the place where the bank is located. In the case of action or non-action by or at a branch or separate office of a bank, its liability is governed by the law of the place where the branch or separate office is located.

##### Section 4—103. Variation by Agreement; Measure of Damages; Certain Action Constituting Ordinary Care.

(1) The effect of the provisions of this Article may be varied by agreement except that no agreement can disclaim a bank's responsibility for its own lack of good faith or failure to exercise ordinary care or can limit the measure of damages for such lack or failure; but the parties may by agreement determine the standards by which such responsibility is to be measured if such standards are not manifestly unreasonable.

(2) Federal Reserve regulations and operating letters, clearing house rules, and the like, have the effect of agreements under subsection (1), whether or not specifically assented to by all parties interested in items handled.

(3) Action or non-action approved by this Article or pursuant to Federal Reserve regulations or operating letters constitutes the exercise of ordinary care and, in the absence of special instructions, action or non-action consistent with clearing house rules and the like or with a general banking usage not disapproved by this Article, prima facie constitutes the exercise of ordinary care.

(4) The specification or approval of certain procedures by this Article does not constitute disapproval of other procedures which may be reasonable under the circumstances.

(5) The measure of damages for failure to exercise ordinary care in handling an item is the amount of the item reduced by an amount which could not have been realized by the use of ordinary care, and where there is bad faith it includes other damages, if any, suffered by the party as a proximate consequence.

#### Section 4—104. Definitions and Index of Definitions.

(1) In this Article unless the context otherwise requires

(a) "Account" means any account with a bank and includes a checking, time, interest or savings account;

(b) "Afternoon" means the period of a day between noon and midnight;

(c) "Banking day" means that part of any day on which a bank is open to the public for carrying on substantially all of its banking functions;

(d) "Clearing house" means any association of banks or other payors regularly clearing items;

(e) "Customer" means any person having an account with a bank or for whom a bank has agreed to collect items and includes a bank carrying an account with another bank;

(f) "Documentary draft" means any negotiable or non-negotiable draft with accompanying documents, securities or other papers to be delivered against honor of the draft;

(g) "Item" means any instrument for the payment of money even though it is not negotiable but does not include money;

(h) "Midnight deadline" with respect to a bank is midnight on its next banking day following the banking day on which it receives the relevant item or notice or from which the time for taking action commences to run, whichever is later;

(i) "Properly payable" includes the availability of funds for payment at the time of decision to pay or dishonor;

(j) "Settle" means to pay in cash, by clearing house settlement, in a charge or credit or by remittance, or otherwise as instructed. A settlement may be either provisional or final;

(k) "Suspends payments" with respect to a bank means that it has been closed by order of the supervisory authorities, that a public officer

has been appointed to take it over or that it ceases or refuses to make payments in the ordinary course of business.

(2) Other definitions applying to this Article and the sections in which they appear are:

"Collecting bank," Section 4—105.

"Depository bank," Section 4—105.

"Intermediary bank," Section 4—105.

"Payor bank," Section 4—105.

"Presenting bank," Section 4—105.

"Remitting bank," Section 4—105.

(3) The following definitions in other Articles apply to this Article:

"Acceptance," Section 3—410.

"Certificate of deposit," Section 3—104.

"Certification," Section 3—411.

"Check," Section 3—104.

"Draft," Section 3—104.

"Holder in due course," Section 3—302.

"Notice of dishonor," Section 3—508.

"Presentment," Section 3—504.

"Protest," Section 3—509.

"Secondary party," Section 3—102.

(4) In addition Article 1 contains general definitions and principles of construction and interpretation applicable throughout this Article.

Section 4—105. "Depository Bank"; "Intermediary Bank"; "Collecting Bank"; "Payor Bank"; "Presenting Bank"; "Remitting Bank."

In this Article unless the context otherwise requires:

(a) "Depository bank" means the first bank to which an item is transferred for collection even though it is also the payor bank;

(b) "Payor bank" means a bank by which an item is payable as drawn or accepted;

(c) "Intermediary bank" means any bank to which an item is transferred in course of collection except the depository or payor bank;

(d) "Collecting bank" means any bank handling the item for collection except the payor bank;

(e) "Presenting bank" means any bank presenting an item except a payor bank;

(f) "Remitting bank" means any payor or intermediary bank remitting for an item.

#### Section 4—106. Separate Office of a Bank.

A branch or separate office of a bank is a separate bank for the purpose of computing the time within which and determining the place at

or to which action may be taken or notices or orders shall be given under this Article and under Article 3.

Section 4—107. Time of Receipt of Items.

(1) For the purpose of allowing time to process items, prove balances and make the necessary entries on its books to determine its positions for the day, a bank may fix an afternoon hour of two P.M. or later as a cut-off hour for the handling of money and items and the making of entries on its books.

(2) Any item or deposit of money received on any day after a cut-off hour so fixed or after the close of the banking day may be treated as being received at the opening of the next banking day.

Section 4—108. Delays.

(1) Unless otherwise instructed, a collecting bank in a good faith effort to secure payment may, in the case of specific items and with or without the approval of any person involved, waive, modify or extend time limits imposed or permitted by this Act for a period not in excess of an additional banking day without discharge of secondary parties and without liability to its transferor or any prior party.

(2) Delay by a collecting bank or payor bank beyond time limits prescribed or permitted by this Act or by instructions is excused if caused by interruption of communication facilities, suspension of payments by another bank, war, emergency conditions or other circumstances beyond the control of the bank provided it exercises such diligence as the circumstances require.

Section 4—109. Process of Posting.

The "process of posting" means the usual procedure followed by a payor bank in determining to pay an item and in recording the payment including one or more of the following or other steps as determined by the bank:

- (a) verification of any signature;
- (b) ascertaining that sufficient funds are available;
- (c) affixing a "paid" or other stamp;
- (d) entering a charge or entry to a customer's account;
- (e) correcting or reversing an entry or erroneous action with respect to the item.

## PART 2

### COLLECTION OF ITEMS: DEPOSITARY AND COLLECTING BANKS

Section 4—201. Presumption and Duration of Agency Status of Collecting Banks and Provisional Status of Credits; Applicability of Article; Item Indorsed "Pay Any Bank."

(1) Unless a contrary intent clearly appears and prior to the time that a settlement given by a collecting bank for an item is or becomes final (subsection (3) of Section 4—211 and Sections 4—212 and 4—213) the bank is an agent or sub-agent of the owner of the item and any settlement given for the item is provisional. This provision applies regardless of the form of indorsement or lack of indorsement and even though credit given for the item is subject to immediate withdrawal as of right or is in fact withdrawn; but the continuance of ownership of an item by its owner and any rights of the owner to proceeds of the item are subject to rights of a collecting bank such as those resulting from outstanding advances on the item and valid rights of setoff. When an item is handled by banks for purposes of presentment, payment and collection, the relevant provisions of this Article apply even though action of parties clearly establishes that a particular bank has purchased the item and is the owner of it.

(2) After an item has been indorsed with the words "pay any bank" or the like, only a bank may acquire the rights of a holder

(a) until the item has been returned to the customer initiating collection; or

(b) until the item has been specifically indorsed by a bank to a person who is not a bank.

Section 4—202. Responsibility for Collection; When Action Seasonable.

(1) A collecting bank must use ordinary care in

(a) presenting an item or sending it for presentment; and

(b) sending notice of dishonor or non-payment or returning an item other than a documentary draft to the bank's transferor or directly to the depositary bank under subsection (2) of Section 4—212 after learning that the item has not been paid or accepted, as the case may be; and

(c) settling for an item when the bank receives final settlement; and

(d) making or providing for any necessary protest; and

(e) notifying its transferor of any loss or delay in transit within a reasonable time after discovery thereof.

(2) A collecting bank taking proper action before its midnight deadline following receipt of an item, notice or payment acts seasonably; taking proper action within a reasonably longer time may be seasonable but the bank has the burden of so establishing.

(3) Subject to subsection (1)(a), a bank is not liable for the insolvency, neglect, misconduct, mistake or default of another bank or person or for loss or destruction of an item in transit or in the possession of others.

Section 4—203. Effect of Instructions.

Subject to the provisions of Article 3 concerning conversion of instruments (Section 3—419) and the provisions of both Article 3 and this Article concerning restrictive indorsements only a collecting bank's transferor can give instructions which affect the bank or constitute notice to it and a collecting bank is not liable to prior parties for any action taken pursuant to such instructions or in accordance with any agreement with its transferor.

Section 4—204. Methods of Sending and Presenting; Sending Direct to Payor Bank.

(1) A collecting bank must send items by reasonably prompt method taking into consideration any relevant instructions, the nature of the item, the number of such items on hand, and the cost of collection involved and the method generally used by it or others to present such items.

(2) A collecting bank may send

(a) any item direct to the payor bank;

(b) any item to any non-bank payor if authorized by its transferor; and

(c) any item other than documentary drafts to any non-bank payor, if authorized by Federal Reserve regulation or operating letter, clearing house rule or the like.

(3) Presentment may be made by a presenting bank at a place where the payor bank has requested that presentment be made.

Section 4—205. Supplying Missing Indorsement; No Notice From Prior Indorsement.

(1) A depositary bank which has taken an item for collection may sup-

ply any indorsement of the customer which is necessary to title unless the item contains the words "payee's indorsement required" or the like. In the absence of such a requirement a statement placed on the item by the depositary bank to the effect that the item was deposited by a customer or credited to his account is effective as the customer's indorsement.

(2) An intermediary bank, or payor bank which is not a depositary bank, is neither given notice nor otherwise affected by a restrictive indorsement of any person except the bank's immediate transferor.

Section 4—206. Transfer Between Banks.

Any agreed method which identifies the transferor bank is sufficient for the item's further transfer to another bank.

Section 4—207. Warranties of Customer and Collecting Bank on Transfer or Presentment of Items; Time for Claims.

(1) Each customer or collecting bank who obtains payment or acceptance of an item and each prior customer and collecting bank warrants to the payor bank or other payor who in good faith pays or accepts the item that

(a) he has a good title to the item or is authorized to obtain payment or acceptance on behalf of one who has a good title; and

(b) he has no knowledge that the signature of the maker or drawer is unauthorized, except that this warranty is not given by any customer or collecting bank that is a holder in due course and acts in good faith

(i) to a maker with respect to the maker's own signature; or

(ii) to a drawer with respect to the drawer's own signature, whether or not the drawer is also the drawee; or

(iii) to an acceptor of an item if the holder in due course took the item after the acceptance or obtained the acceptance without knowledge that the drawer's signature was unauthorized; and

(c) the item has not been materially altered, except that this warranty is not given by any customer or collecting bank that is a holder in due course and acts in good faith.

(i) to the maker of a note; or

(ii) to the drawer of a draft whether or not the drawer is also the drawee; or

(iii) to the acceptor of an item

with respect to an alteration made prior to the acceptance if the holder in due course took the item after the acceptance, even though the acceptance provided "payable as originally drawn" or equivalent terms; or

(iv) to the acceptor of an item with respect to an alteration made after the acceptance.

(2) Each customer and collecting bank who transfers an item and receives a settlement or other consideration for it warrants to his transferee and to any subsequent collecting bank who takes the item in good faith that

(a) he has a good title to the item or is authorized to obtain payment or acceptance on behalf of one who has a good title and the transfer is otherwise rightful; and

(b) all signatures are genuine or authorized; and

(c) the item has not been materially altered; and

(d) no defense of any party is good against him; and

(e) he has no knowledge of any insolvency proceeding instituted with respect to the maker or acceptor or the drawer of an unaccepted item.

In addition each customer and collecting bank so transferring an item and receiving a settlement or other consideration engages that upon dishonor and any necessary notice of dishonor and protest he will take up the item.

(3) The warranties and the engagement to honor set forth in the two preceding subsections arises notwithstanding the absence of indorsement or words of guaranty or warranty in the transfer or presentment and a collecting bank remains liable for their breach despite remittance to its transferor. Damages for breach of such warranties or engagement to honor shall not exceed the consideration received by the customer or collecting bank responsible plus finance charges and expenses related to the item, if any.

(4) Unless a claim for breach of warranty under this section is made within a reasonable time after the person claiming learns of the breach, the person liable is discharged to the extent of any loss caused by the delay in making claim.

**Section 4—208. Security Interest of Collecting Bank in Items, Accompanying Documents and Proceeds.**

(1) A bank has a security interest in an item and any accompanying

documents or the proceeds of either.

(a) in case of an item deposited in an account to the extent to which credit given for the item has been withdrawn or applied;

(b) in case of an item for which it has given credit available for withdrawal as of right, to the extent of the credit given whether or not the credit is drawn upon and whether or not there is a right of charge-back; or

(c) if it makes an advance on or against the item.

(2) When credit which has been given for several items received at one time or pursuant to a single agreement is withdrawn or applied in part the security interest remains upon all the items, any accompanying documents or the proceeds of either. For the purpose of this section, credits first given are first withdrawn.

(3) Receipt by a collecting bank of a final settlement for an item is a realization on its security interest in the item, accompanying documents and proceeds. To the extent and so long as the bank does not receive final settlement for the item or give up possession of the item or accompanying documents for purposes other than collection, the security interest continues and is subject to the provisions of Article 9 except that

(a) no security agreement is necessary to make the security interest enforceable (subsection (1)(b) of Section 9—203); and

(b) no filing is required to perfect the security interest; and

(c) the security interest has priority over conflicting perfected security interests in the item, accompanying documents or proceeds.

**Section 4—209. When Bank Gives Value for Purposes of Holder in Due Course.**

For purposes of determining its status as a holder in due course, the bank has given value to the extent that it has a security interest in an item provided that the bank otherwise complies with the requirements of Section 3—302 on what constitutes a holder in due course.

**Section 4—210. Presentment by Notice of Item Not Payable by, Through or at a Bank; Liability of Secondary Parties.**

(1) Unless otherwise instructed, a collecting bank may present an item not payable by, through or at a bank by sending to the party to accept or pay a written notice that the bank

holds the item for acceptance or payment. The notice must be sent in time to be received on or before the day when presentment is due and the bank must meet any requirement of the party to accept or pay under Section 3—505 by the close of the bank's next banking day after it knows of the requirement.

(2) Where presentment is made by notice and neither honor nor request for compliance with a requirement under Section 3—505 is received by the close of business on the day after maturity or in the case of demand items by the close of business on the third banking day after notice was sent, the presenting bank may treat the item as dishonored and charge any secondary party by sending him notice of the facts.

Section 4—211. Media of Remittance; Provisional and Final Settlement in Remittance Cases.

(1) A collecting bank may take in settlement of an item

(a) a check of the remitting bank or of another bank on any bank except the remitting bank; or

(b) a cashier's check or similar primary obligation of a remitting bank which is a member of or clears through a member of the same clearing house or group as the collecting bank; or

(c) appropriate authority to charge an account of the remitting bank or of another bank with the collecting bank; or

(d) if the item is drawn upon or payable by a person other than a bank, a cashier's check, certified check or other bank check or obligation.

(2) If before its midnight deadline the collecting bank properly dishonors a remittance check or authorization to charge on itself or presents or forwards for collection a remittance instrument of or on another bank which is of a kind approved by subsection (1) or has not been authorized by it, the collecting bank is not liable to prior parties in the event of the dishonor of such check, instrument or authorization.

(3) A settlement for an item by means of a remittance instrument or authorization to charge is or becomes a final settlement as to both the person making and the person receiving the settlement

(a) if the remittance instrument or authorization to charge is of a kind approved by subsection (1) or has not been authorized by the person

receiving the settlement and in either case the person receiving the settlement acts seasonably before its midnight deadline in presenting, forwarding for collection or paying the instrument or authorization, at the time the remittance instrument or authorization is finally paid by the payor by which it is payable;

(b) if the person receiving the settlement has authorized remittance by a non-bank check or obligation or by a cashier's check or similar primary obligation of or a check upon the payor or other remitting bank which is not of a kind approved by subsection (1) (b), at the time of the receipt of such remittance check or obligation; or

(c) if in a case not covered by sub-paragraphs (a) or (b) the person receiving the settlement fails to seasonably present, forward for collection, pay or return a remittance instrument or authorization to it to charge before its midnight deadline, at such midnight deadline.

Section 4—212. Right of Charge-Back or Refund.

(1) If a collecting bank has made provisional settlement with its customer for an item and itself fails by reason of dishonor, suspension of payments by a bank or otherwise to receive a settlement for the item which is or becomes final, the bank may revoke the settlement given by it, charge back the amount of any credit given for the item to its customer's account or obtain refund from its customer whether or not it is able to return the items if by its midnight deadline or within a longer reasonable time after it learns the facts it returns the item or sends notification of the facts. These rights to revoke, charge-back and obtain refund terminate if and when a settlement for the item received by the bank is or becomes final (subsection (3) of Section 4—211 and subsections (2) and (3) of Section 4—213).

(2) Within the time and manner prescribed by this section and Section 4—301, an intermediary or payor bank, as the case may be, may return an unpaid item directly to the depositary bank and may send for collection a draft on the depositary bank and obtain reimbursement. In such case, if the depositary bank has received provisional settlement for the item, it must reimburse the bank drawing the draft and any provisional credits for the item between banks



shall become and remain final.

(3) A depository bank which is also the payor may charge-back the amount of an item to its customer's account or obtain refund in accordance with the section governing return of an item received by a payor bank for credit on its books (Section 4—301).

(4) The right to charge-back is not affected by

(a) prior use of the credit given for the item; or

(b) failure by any bank to exercise ordinary care with respect to the item but any bank so failing remains liable.

(5) A failure to charge-back or claim refund does not affect other rights of the bank against the customer or any other party.

(6) If credit is given in dollars as the equivalent of the value of an item payable in a foreign currency the dollar amount of any charge-back or refund shall be calculated on the basis of the buying sight rate for the foreign currency prevailing on the day when the person entitled to the charge-back or refund learns that it will not receive payment in ordinary course.

**Section 4—213. Final Payment of Item by Payor Bank; When Provisional Debits and Credits Become Final; When Certain Credits Become Available for Withdrawal.**

(1) An item is finally paid by a payor bank when the bank has done any of the following, whichever happens first:

(a) paid the item in cash; or

(b) settled for the item without reserving a right to revoke the settlement and without having such right under statute, clearing house rule or agreement; or

(c) completed the process of posting the item to the indicated account of the drawer, maker or other person to be charged therewith; or

(d) made a provisional settlement for the item and failed to revoke the settlement in the time and manner permitted by statute, clearing house rule or agreement.

Upon a final payment under subparagraphs (b), (c) or (d) the payor bank shall be accountable for the amount of the item.

(2) If provisional settlement for an item between the presenting and payor banks is made through a clearing house or by debits or credits in an account between them, then to the extent that provisional debits or cred-

its for the item are entered in accounts between the presenting and payor banks or between the presenting and successive prior collecting banks seriatim, they become final upon final payment of the item by the payor bank.

(3) If a collecting bank receives a settlement for an item which is or becomes final (subsection (3) of Section 4—211, subsection (2) of Section 4—213) the bank is accountable to its customer for the amount of the item and any provisional credit given for the item in an account with its customer becomes final.

(4) Subject to any right of the bank to apply the credit to an obligation of the customer, credit given by a bank for an item in an account with its customer becomes available for withdrawal as of right

(a) in any case where the bank has received a provisional settlement for the item,—when such settlement becomes final and the bank has had a reasonable time to learn that the settlement is final;

(b) in any case where the bank is both a depository bank and a payor bank and the item is finally paid,—at the opening of the bank's second banking day following receipt of the item.

(5) A deposit of money in a bank is final when made but, subject to any right of the bank to apply the deposit to an obligation of the customer, the deposit becomes available for withdrawal as of right at the opening of the bank's next banking day following receipt of the deposit.

**Section 4—214. Insolvency and Preference.**

(1) Any item in or coming into the possession of a payor or collecting bank which suspends payment and which item is not finally paid shall be returned by the receiver, trustee or agent in charge of the closed bank to the presenting bank or the closed bank's customer.

(2) If a payor bank finally pays an item and suspends payments without making a settlement for the item with its customer or the presenting bank which settlement is or becomes final, the owner of the item has a preferred claim against the payor bank.

(3) If a payor bank gives or a collecting bank gives or receives a provisional settlement for an item and thereafter suspends payments, the suspension does not prevent or interfere with the settlement becoming

final if such finality occurs automatically upon the lapse of certain time or the happening of certain events (subsection (3) of Section 4—211, subsections (1)(d), (2) and (3) of Section 4—213).

(4) If a collecting bank receives from subsequent parties settlement for an item which settlement is or becomes final and suspends payments without making a settlement for the item with its customer which is or becomes final, the owner of the item has a preferred claim against such collecting bank.

### PART 3

#### COLLECTION OF ITEMS; PAYOR BANKS

Section 4—301. Deferred Posting; Recovery of Payments by Return of Items; Time of Dishonor.

(1) Where an authorized settlement for a demand item (other than a documentary draft) received by a payor bank otherwise than for immediate payment over the counter has been made before midnight of the banking day of receipt the payor bank may revoke the settlement and recover any payment if before it has made final payment (subsection (1) of Section 4—213) and before its midnight deadline it

(a) returns the item; or

(b) sends written notice of dishonor or nonpayment if the item is held for protest or is otherwise unavailable for return.

(2) If a demand item is received by a payor bank for credit on its books it may return such item or send notice of dishonor and may revoke any credit given or recover the amount thereof withdrawn by its customer, if it acts within the time limit and in the manner specified in the preceding subsection.

(3) Unless previous notice of dishonor has been sent an item is dishonored at the time when for purposes of dishonor it is returned or notice sent in accordance with this section.

(4) An item is returned:

(a) as to an item received through a clearing house, when it is delivered to the presenting or last collecting bank or to the clearing house or is sent or delivered in accordance with its rules; or

(b) in all other cases, when it is sent or delivered to the bank's customer or transferor or pursuant to his instructions.

Section 4—302. Payor Bank's Responsibility for Late Return of Item.

In the absence of a valid defense such as breach of a presentment warranty (subsection (1) of Section 4—207), settlement effected or the like, if an item is presented on and received by a payor bank the bank is accountable for the amount of

(a) a demand item other than a documentary draft whether properly payable or not if the bank, in any case where it is not also the depository bank, retains the item beyond midnight of the banking day of receipt without settling for it or, regardless of whether it is also the depository bank, does not pay or return the item or send notice of dishonor until after its midnight deadline; or

(b) any other properly payable item unless within the time allowed for acceptance or payment of that item the bank either accepts or pays the item or returns it and accompanying documents.

Section 4—303. When Items Subject to Notice, Stop-Order, Legal Process or Setoff; Order in Which Items May Be Charged or Certified.

(1) Any knowledge, notice or stop-order received by, legal process served upon or setoff exercised by a payor bank, whether or not effective under other rules of law to terminate, suspend or modify the bank's right or duty to pay an item or to charge its customer's account for the item, comes too late to so terminate, suspend or modify such right or duty if the knowledge, notice, stop-order or legal process is received or served and a reasonable time for the bank to act thereon expires or the setoff is exercised after the bank has done any of the following:

(a) accepted or certified the item;

(b) paid the item in cash;

(c) settled for the item without reserving a right to revoke the settlement and without having such right under statute, clearing house rule or agreement;

(d) completed the process of posting the item to the indicated account of the drawer, maker or other person to be charged therewith or otherwise has evidenced by examination of such indicated account and by action its decision to pay the item; or

(e) become accountable for the amount of the item under subsection (1)(d) of Section 4—213 and Section 4—302 dealing with the payor bank's

responsibility for late return of items.

(2) Subject to the provisions of subsection (1) items may be accepted, paid, certified or charged to the indicated account of its customer in any order convenient to the bank.

#### PART 4

#### RELATIONSHIP BETWEEN PAYOR BANK AND ITS CUSTOMER

##### Section 4—401. When Bank May Charge Customer's Account.

(1) As against its customer, a bank may charge against his account any item which is otherwise properly payable from that account even though the charge creates an overdraft.

(2) A bank which in good faith makes payment to a holder may charge the indicated account of its customer according to

(a) the original tenor of his altered item; or

(b) the tenor of his completed item, even though the bank knows the item has been completed unless the bank has notice that the completion was improper.

##### Section 4—402. Bank's Liability to Customer for Wrongful Dishonor.

A payor bank is liable to its customer for damages proximately caused by the wrongful dishonor of any item. When the dishonor occurs through mistakes, liability is limited to actual damages proved. If so proximately caused and proved damages may include damages for an arrest or prosecution of the customer or other consequential damages. Whether any consequential damages are proximately caused by the wrongful dishonor is a question of fact to be determined in each case.

##### Section 4—403. Customer's Right to Stop Payment; Burden of Proof of Loss.

(1) A customer may by order to his bank stop payment of any item payable for his account but the order must be received at such time and in such manner as to afford the bank a reasonable opportunity to act on it prior to any action by the bank with respect to the item described in Section 4—303.

(2) An order is binding upon the bank only if it is in writing, dated, signed, and describes the item with certainty. An order is effective for only six months unless renewed in writing.

(3) The burden of establishing the

fact and amount of loss resulting from the payment of an item contrary to a binding stop payment order is on the customer.

##### Section 4—404. Bank Not Obligated to Pay Check More Than Six Months Old.

A bank is under no obligation to a customer having a checking account to pay a check, other than a certified check, which is presented more than six months after its date, but it may charge its customer's account for a payment made thereafter in good faith.

##### Section 4—405. Death or Incompetence of Customer.

(1) A payor or collecting bank's authority to accept, pay or collect an item or to account for proceeds of its collection if otherwise effective is not rendered ineffective by incompetence of a customer of either bank existing at the time the item is issued or its collection is undertaken if the bank does not know of an adjudication of incompetence. Neither death nor incompetence of a customer revokes such authority to accept, pay, collect or account until the bank knows of the fact of death or of an adjudication of incompetence and has reasonable opportunity to act on it.

(2) Even with knowledge a bank may for ten days after the date of death pay or certify checks drawn on or prior to that date unless ordered to stop payment by a person claiming an interest in the account.

##### Section 4—406. Customer's Duty to Discover and Report Unauthorized Signature or Alteration.

(1) When a bank sends to its customer a statement of account accompanied by items paid in good faith in support of the debit entries or holds the statement and items pursuant to a request or instructions of its customer or otherwise in a reasonable manner makes the statement and items available to the customer, the customer must exercise reasonable care and promptness to examine the statement and items to discover his unauthorized signature or any alterations on an item and must notify the bank promptly after discovery thereof.

(2) If the bank establishes that the customer failed with respect to an item to comply with the duties imposed on the customer by subsection (1) the customer is precluded from asserting against the bank

(a) his authorized signature or any

alteration on the item if the bank also establishes that it suffered a loss by reason of such failure; and

(b) an unauthorized signature or alteration by the same wrongdoer on any other item paid in good faith by the bank after the first item and statement was available to the customer for a reasonable period not exceeding fourteen calendar days and before the bank receives notification from the customer of any such unauthorized signature or alteration.

(3) The preclusion under subsection (2) does not apply if the customer establishes lack of ordinary care on the part of the bank in paying the item(s).

(4) Without regard to care or lack of care of either the customer or the bank a customer who does not within one year from the time the statement and items are made available to the customer (subsection (1)) discover and report his unauthorized signature or any alteration on the face or back of the item or does not within three years from that time discover and report any unauthorized indorsement is precluded from asserting against the bank such unauthorized signature or indorsement or such alteration.

(5) If under this section a payor bank has a valid defense against a claim of a customer upon or resulting from payment of an item and waives or fails upon request to assert the defense the bank may not assert against any collecting bank or other prior party presenting or transferring the item a claim based upon the unauthorized signature or alteration giving rise to the customer's claim.

#### Section 4—407. Payor Bank's Right to Subrogation on Improper Payment.

If a payor bank has paid an item over the stop payment order of the drawer or maker or otherwise under circumstances giving a basis for objection by the drawer or maker, to prevent unjust enrichment and only to the extent necessary to prevent loss to the bank by reason of its payment of the item, the payor bank shall be subrogated to the rights

(a) of any holder in due course on the item against the drawer or maker; and

(b) of the payee or any other holder of the item against the drawer or maker either on the item or under the transaction out of which the item arose; and

(c) of the drawer or maker against

the payee or any other holder of the item with respect to the transaction out of which the item arose.

#### PART 5

#### COLLECTION OF DOCUMENTARY DRAFTS

Section 4—501. Handling of Documentary Drafts; Duty to Send for Presentment and to Notify Customer of Dishonor.

A bank which takes a documentary draft for collection must present or send the draft and accompanying documents for presentment and upon learning that the draft has not been paid or accepted in due course must seasonably notify its customer of such fact even though it may have discounted or bought the draft or extended credit available for withdrawal as of right.

Section 4—502. Presentment of "On Arrival" Drafts.

When a draft or the relevant instructions require presentment "on arrival," "when goods arrive" or the like, the collecting bank need not present until in its judgment a reasonable time for arrival of the goods has expired. Refusal to pay or accept because the goods have not arrived is not dishonor; the bank must notify its transferor of such refusal but need not present the draft again until it is instructed to do so or learns of the arrival of the goods.

Section 4—503. Responsibility of Presenting Bank for Documents and Goods; Report of Reasons for Dishonor; Referee in Case of Need.

Unless otherwise instructed and except as provided in Article 5 a bank presenting a documentary draft

(a) must deliver the documents to the drawee on acceptance of the draft if it is payable more than three days after presentment; otherwise only on payment; and

(b) upon dishonor, either in the case of presentment for acceptance or presentment for payment, may seek and follow instructions from any referee in case of need designated in the draft or if the presenting bank does not choose to utilize his services it must use diligence and good faith to ascertain the reason for dishonor, must notify its transferor of the dishonor and of the results of its effort to ascertain the reasons therefor and must request instructions.

But the presenting bank is under no obligation with respect to goods represented by the documents except to follow any reasonable instructions

seasonably received; it has a right to reimbursement for any expense incurred in following instructions and to repayment of or indemnity for such expenses.

Section 4—504. Privilege of Presenting Bank to Deal With Goods; Security Interest for Expenses.

(1) A presenting bank which, following the dishonor of a documentary draft, has seasonably requested instructions but does not receive them within a reasonable time may store, sell, or otherwise deal with the goods in any reasonable manner.

(2) For its reasonable expenses incurred by action under subsection (1) the presenting bank has a lien upon the goods or their proceeds, which may be foreclosed in the same manner as an unpaid seller's lien.

## ARTICLE 5

### LETTERS OF CREDIT

Section 5—101. Short Title.

This Article shall be known and may be cited as Uniform Commercial Code—Letters of Credit.

Section 5—102. Scope.

(1) This Article applies

(a) to a credit issued by a bank if the credit requires a documentary draft or a documentary demand for payment; and

(b) to a credit issued by a person other than a bank if the credit requires that the draft or demand for payment be accompanied by a document of title; and

(c) to a credit issued by a bank or other person if the credit is not within subparagraphs (a) or (b) but conspicuously states that it is a letter of credit or is conspicuously so entitled.

(2) Unless the engagement meets the requirements of subsection (1), this Article does not apply to engagements to make advances or to honor drafts or demands for payment, to authorities to pay or purchase, to guarantees or to general agreements.

(3) This Article deals with some but not all of the rules and concepts of letters of credit as such rules or concepts have developed prior to this act or may hereafter develop. The fact that this Article states a rule does not by itself require, imply or negate application of the same or a converse rule to a situation not provided for or to a person not specified by this Article.

Section 5—103. Definitions.

(1) In this Article unless the context otherwise requires

(a) "Credit" or "letter of credit" means an engagement by a bank or other person made at the request of a customer and of a kind within the scope of this Article (Section 5—102) that the issuer will honor drafts or other demands for payment upon compliance with the conditions specified in the credit. A credit may be either revocable or irrevocable. The engagement may be either an agreement to honor or a statement that the bank or other person is authorized to honor.

(b) A "documentary draft" or a "documentary demand for payment" is one honor of which is conditioned upon the presentation of a document or documents. "Document" means any paper including document of title, security, invoice, certificate, notice of default and the like.

(c) An "issuer" is a bank or other person issuing a credit.

(d) A "beneficiary" of a credit is a person who is entitled under its terms to draw or demand payment.

(e) An "advising bank" is a bank which gives notification of the issuance of a credit by another bank.

(f) A "confirming bank" is a bank which engages either that it will itself honor a credit already issued by another bank or that such a credit will be honored by the issuer or a third bank.

(g) A "customer" is a buyer or other person who causes an issuer to issue a credit. The term also includes a bank which procures issuance or confirmation on behalf of that bank's customer.

(2) Other definitions applying to this Article and the sections in which they appear are:

"Notation of Credit." Section 5—108.

"Presenter." Section 5—112(3).

(3) Definitions in other Articles applying to this Article and the sections in which they appear are:

"Accept" or "Acceptance." Section 3—410.

"Contract for sale." Section 2—106.

"Draft." Section 3—104.

"Holder in due course." Section 3—302.

"Midnight deadline." Section 4—104.

"Security." Section 8—102.

(4) In addition, Article 1 contains

general definitions and principles of construction and interpretation applicable throughout this Article.

Section 5—104. Formal Requirements; Signing.

(1) Except as otherwise required in subsection (1)(c) of Section 5—102 on scope, no particular form of phrasing is required for a credit. A credit must be in writing and signed by the issuer and a confirmation must be in writing and signed by the confirming bank. A modification of the terms of a credit or confirmation must be signed by the issuer or confirming bank.

(2) A telegram may be a sufficient signed writing if it identifies its sender by an authorized authentication. The authentication may be in code and the authorized naming of the issuer in an advice of credit is a sufficient signing.

Section 5—105. Consideration.

No consideration is necessary to establish a credit or to enlarge or otherwise modify its terms.

Section 5—106. Time and Effect of Establishment of Credit.

(1) Unless otherwise agreed a credit is established

(a) as regards the customer as soon as a letter of credit is sent to him or the letter of credit or an authorized written advice of its issuance is sent to the beneficiary; and

(b) as regards the beneficiary when he receives a letter of credit or an authorized written advice of its issuance.

(2) Unless otherwise agreed once an irrevocable credit is established as regards the customer it can be modified or revoked only with the consent of the customer and once it is established as regards the beneficiary it can be modified or revoked only with his consent.

(3) Unless otherwise agreed after a revocable credit is established it may be modified or revoked by the issuer without notice to or consent from the customer or beneficiary.

(4) Notwithstanding any modification or revocation of a revocable credit any person authorized to honor or negotiate under the terms of the original credit is entitled to reimbursement for or honor of any draft or demand for payment duly honored or negotiated before receipt of notice of the modification or revocation and

the issuer in turn is entitled to reimbursement from its customer.

Section 5—107. Advice of Credit; Confirmation; Error in Statement of Terms.

(1) Unless otherwise specified an advising bank by advising a credit issued by another bank does not assume any obligation to honor drafts drawn or demands for payment made under the credit but it does assume obligation for the accuracy of its own statement.

(2) A confirming bank by confirming a credit becomes directly obligated on the credit to the extent of its confirmation as though it were its issuer and acquires the rights of an issuer.

(3) Even though an advising bank incorrectly advises the terms of a credit it has been authorized to advise the credit is established as against the issuer to the extent of its original terms.

(4) Unless otherwise specified the customer bears as against the issuer all risks of transmission and reasonable translation or interpretation of any message relating to a credit.

Section 5—108. "Notation Credit"; Exhaustion of Credit.

(1) A credit which specifies that any person purchasing or paying drafts drawn or demands for payment made under it must note the amount of the draft or demand on the letter or advice of credit is a "notation of credit."

(2) Under a notation credit

(a) a person paying the beneficiary or purchasing a draft or demand for payment from him acquires a right to honor only if the appropriate notation is made and by transferring or forwarding for honor the documents under the credit such a person warrants to the issuer that the notation has been made; and

(b) unless the credit or a signed statement that an appropriate notation has been made accompanies the draft or demand for payment the issuer may delay honor until evidence of notation has been procured which is satisfactory to it but its obligation and that of its customer continue for a reasonable time not exceeding thirty days to obtain such evidence.

(3) If the credit is not a notation credit

(a) the issuer may honor complying drafts or demands for payment

presented to it in the order in which they are presented and is discharged pro tanto by honor of any such draft or demand;

(b) as between competing good faith purchasers of complying drafts or demands the person first purchasing has priority over a subsequent purchaser even though the later purchased draft or demand has been first honored.

**Section 5—109. Issuer's Obligation to Its Customer.**

(1) An issuer's obligation to its customer includes good faith and observance of any general banking usage but unless otherwise agreed does not include liability or responsibility.

(a) for performance of the underlying contract for sale or other transaction between the customer and the beneficiary; or

(b) for any act or omission of any person other than itself or its own branch or for loss or destruction of a draft, demand or document in transit or in the possession of others; or

(c) based on knowledge or lack of knowledge of any usage of any particular trade.

(2) An issuer must examine documents with care so as to ascertain that on their face they appear to comply with the terms of the credit but unless otherwise agreed assumes no liability or responsibility for the genuineness, falsification or effect of any document which appears on such examination to be regular on its face.

(3) A non-bank issuer is not bound by any banking usage of which it has no knowledge.

**Section 5—110. Availability of Credit in Portions; Presenter's Reservation of Lien or Claim.**

(1) Unless otherwise specified a credit may be used in portions in the discretion of the beneficiary.

(2) Unless otherwise specified a person by presenting a documentary draft or demand for payment under a credit relinquishes upon its honor all claims to the documents and a person by transferring such draft or demand or causing such presentment authorizes such relinquishment. An explicit reservation of claim makes the draft or demand non-complying.

**Section 5—111. Warranties on Transfer and Presentment.**

(1) Unless otherwise agreed the beneficiary by transferring or presenting a documentary draft or de-

mand for payment warrants to all interested parties that the necessary conditions of the credit have been complied with. This is in addition to any warranties arising under Articles 3, 4, 7 and 8.

(2) Unless otherwise agreed a negotiating, advising, confirming, collecting or issuing bank presenting or transferring a draft or demand for payment under a credit warrants only the matters warranted by a collecting bank under Article 4 and any such bank transferring a document warrants only the matters warranted by an intermediary under Articles 7 and 8.

**Section 5—112. Time Allowed for Honor or Rejection; Withholding Honor or Rejection by Consent; "Presenter."**

(1) A bank to which a documentary draft or demand for payment is presented under a credit may without dishonor of the draft, demand or credit

(a) defer honor until the close of the third banking day following receipt of the documents; and

(b) further defer honor if the presenter has expressly or impliedly consented thereto.

Failure to honor within the time here specified constitutes dishonor of the draft or demand and of the credit except as otherwise provided in subsection (4) of Section 5—114 on conditional payment.

(2) Upon dishonor the bank may unless otherwise instructed fulfill its duty to return the draft or demand and the documents by holding them at the disposal of the presenter and sending him an advice to that effect.

(3) "Presenter" means any person presenting a draft or demand for payment for honor under a credit even though that person is a confirming bank or other correspondent which is acting under an issuer's authorization.

**Section 5—113. Indemnities.**

(1) A bank seeking to obtain (whether for itself or another) honor, negotiation or reimbursement under a credit may give an indemnity to induce such honor, negotiation or reimbursement.

(2) An indemnity agreement inducing honor, negotiation or reimbursement

(a) unless otherwise explicitly agreed applies to defects in the documents but not in the goods; and

(b) unless a longer time is explicit-

ly agreed expires at the end of ten business days following receipt of the documents by the ultimate customer unless notice of objection is sent before such expiration date. The ultimate customer may send notice of objection to the person from whom he received the documents and any bank receiving such notice is under a duty to send notice to its transferor before its midnight deadline.

Section 5—114. Issuer's Duty and Privilege to Honor; Right to Reimbursement.

(1) An issuer must honor a draft or demand for payment which complies with the terms of the relevant credit regardless of whether the goods or documents conform to the underlying contract for sale or other contract between the customer and the beneficiary. The issuer is not excused from honor of such a draft or demand by reason of an additional general term that all documents must be satisfactory to the issuer, but an issuer may require that specified documents must be satisfactory to it.

(2) Unless otherwise agreed when documents appear on their face to comply with the terms of a credit but a required document does not in fact conform to the warranties made on negotiation or transfer of a document of title (Section 7—507) or of a security (Section 8—306) or is forged or fraudulent or there is fraud in the transaction

(a) the issuer must honor the draft or demand for payment if honor is demanded by a negotiating bank or other holder of the draft or demand which has taken the draft or demand under the credit and under circumstances which would make it a holder in due course (Section 3—302) and in an appropriate case would make it a person to whom a document of title has been duly negotiated (Section 7—502) or a bona fide purchaser of a security (Section 8—302); and

(b) in all other cases as against its customer, an issuer acting in good faith may honor the draft or demand for payment despite notification from the customer of fraud, forgery or other defect not apparent on the face of the documents but a court of appropriate jurisdiction may enjoin such honor.

(3) Unless otherwise agreed an issuer which has duly honored a draft or demand for payment is entitled to immediate reimbursement of any payment made under the credit and to be

put in effectively available funds not later than the day before maturity of any acceptance made under the credit.

(4) When a credit provides for payment by the issuer on receipt of notice that the required documents are in the possession of a correspondent or other agent of the issuer

(a) any payment made on receipt of such notice is conditional; and

(b) the issuer may reject documents which do not comply with the credit if it does so within three banking days following its receipt of the documents; and

(c) in the event of such rejection, the issuer is entitled by charge back or otherwise to return of the payment made.

(5) In the case covered by subsection (4) failure to reject documents within the time specified in subparagraph (b) constitutes acceptance of the documents and makes the payment final in favor of the beneficiary.

Section 5—115. Remedy for Improper Dishonor or Anticipatory Repudiation.

(1) When an issuer wrongfully dishonors a draft or demand for payment presented under a credit the person entitled to honor has with respect to any documents the rights of a person in the position of a seller (Section 2—707) and may recover from the issuer the face amount of the draft or demand together with incidental damages under Section 2—710 on seller's incidental damages and interest but less any amount realized by resale or other use or disposition of the subject matter of the transaction. In the event no resale or other utilization is made the documents, goods or other subject matter involved in the transaction must be turned over to the issuer on payment of judgment.

(2) When an issuer wrongfully cancels or otherwise repudiates a credit before presentment of a draft or demand for payment drawn under it the beneficiary has the rights of a seller after anticipatory repudiation by the buyer under Section 2—610 if he learns of the repudiation in time reasonably to avoid procurement of the required documents. Otherwise the beneficiary has an immediate right of action for wrongful dishonor.

Section 5—116. Transfer and Assignment.

(1) The right to draw under a credit can be transferred or assigned



only when the credit is expressly designated as transferable or assignable.

(2) Even though the credit specifically states that it is non-transferable or nonassignable the beneficiary may before performance of the conditions of the credit assign his right to proceeds. Such an assignment is an assignment of a contract right under Article 9 on Secured Transactions and is governed by that Article except that

(a) the assignment is ineffective until the letter of credit or advice of credit is delivered to the assignee which delivery constitutes perfection of the security interest under Article 9; and

(b) the issuer may honor drafts or demands for payment drawn under the credit until it receives a notification of the assignment signed by the beneficiary which reasonably identifies the credit involved in the assignment and contains a request to pay the assignee; and

(c) after what reasonably appears to be such a notification has been received the issuer may without dishonor refuse to accept or pay even to a person otherwise entitled to honor until the letter of credit or advice of credit is exhibited to the issuer.

(3) Except where the beneficiary has effectively assigned his right to draw or his right to proceeds, nothing in this section limits his right to transfer or negotiate drafts or demands drawn under the credit.

Section 5—117. Insolvency of Bank Holding Funds for Documentary Credit.

(1) Where an issuer or an advising or confirming bank or a bank which has for a customer procured issuance of a credit by another bank becomes insolvent before final payment under the credit and the credit is one to which this Article is made applicable by paragraphs (a) or (b) of Section 5—102(1) on scope, the receipt or allocation of funds or collateral to secure or meet obligations under the credit shall have the following results:

(a) to the extent of any funds or collateral turned over after or before the insolvency as indemnity against or specifically for the purpose of payment of drafts or demands for payment drawn under the designated credit, the drafts are entitled to payment in preference over depositors or other general creditors of the issuer or bank; and

(b) on expiration of the credit or surrender of the beneficiary's rights under it unused any person who has given such funds or collateral is similarly entitled to return thereof; and

(c) a charge to a general or current account with a bank if specifically consented to for the purpose of indemnity against or payment of drafts or demands for payment drawn under the designated credit falls under the same rules as if the funds had been drawn out in cash and then turned over with specific instructions.

(2) After honor or reimbursement under this section the customer or other person for whose account the insolvent bank has acted is entitled to receive the documents involved.

## ARTICLE 6

### BULK TRANSFERS

Section 6—101. Short Title.

This Article shall be known and may be cited as Uniform Commercial Code—Bulk Transfers.

Section 6—102. "Bulk Transfer"; Transfers of Equipment; Enterprises Subject to This Article; Bulk Transfers Subject to This Article.

(1) A "bulk transfer" is any transfer in bulk and not in the ordinary course of the transferor's business of a major part of the materials, supplies, merchandise or other inventory (Section 9—109) of an enterprise subject to this Article.

(2) A transfer of a substantial part of the equipment (Section 9—109) of such an enterprise is a bulk transfer if it is made in connection with a bulk transfer of inventory, but not otherwise.

(3) The enterprises subject to this Article are all those whose principal business is the sale of merchandise from stock, including those who manufacture what they sell.

(4) Except as limited by the following section all bulk transfers of goods located within this state are subject to this Article.

Section 6—103. Transfers Excepted From This Article.

The following transfers are not subject to this Article:

(1) Those made to give security for the performance of an obligation;

(2) General assignments for the benefit of all the creditors of the transferor, and subsequent transfers by the assignee thereunder;

(3) Transfers in settlement or realization of a lien or other security interest;

(4) Sales by executors, administrators, receivers, trustees in bankruptcy, or any public officer under judicial process;

(5) Sales made in the course of judicial or administrative proceedings for the dissolution or reorganization of a corporation and of which notice is sent to the creditors of the corporation pursuant to order of the court or administrative agency;

(6) Transfers to a person maintaining a known place of business in this State who becomes bound to pay the debts of the transferor in full and gives public notice of that fact, and who is solvent after becoming so bound;

(7) A transfer to a new business enterprise organized to take over and continue the business, if public notice of the transaction is given and the new enterprise assumes the debts of the transferor and he receives nothing from the transaction except an interest in the new enterprise junior to the claims of creditors;

(8) Transfers of property which is exempt from execution.

Public notice under subsection (6) or subsection (7) may be given by publishing once a week for two consecutive weeks in a newspaper of general circulation where the transferor had its principal place of business in this state an advertisement including the names and addresses of the transferor and transferee and the effective date of the transfer.

Section 6—104. Schedule of Property, List of Creditors.

(1) Except as provided with respect to auction sales (Section 6—108), a bulk transfer subject to this Article is ineffective against any creditor of the transferor unless:

(a) The transferee requires the transferor to furnish a list of his existing creditors prepared as stated in this section; and

(b) The parties prepare a schedule of the property transferred sufficient to identify it; and

(c) The transferee preserves the list and schedule for six months next following the transfer and permits inspection of either or both and copying therefrom at all reasonable hours by any creditor of the transferor, or files the list and schedule in the office of the county clerk of the county in which the transferor had its principal place of business in this state.

(2) The list of creditors must be signed and sworn to or affirmed by

the transferor or his agent. It must contain the names and business addresses of all creditors of the transferor, with the amounts when known, and also the names of all persons who are known to the transferor to assert claims against him even though such claims are disputed. If the transferor is the obligor of an outstanding issue of bonds, debentures or the like as to which there is an indenture trustee, the list of creditors need include only the name and address of the indenture trustee and the aggregate outstanding principal amount of the issue.

(3) Responsibility for the completeness and accuracy of the list of creditors rests on the transferor, and the transfer is not rendered ineffective by errors or omissions therein unless the transferee is shown to have had knowledge.

Section 6—105. Notice to Creditors.

In addition to the requirements of the preceding section, any bulk transfer subject to this Article except one made by auction sale (Section 6—108) is ineffective against any creditor of the transferor unless at least ten days before he takes possession of the goods or pays for them, whichever happens first, the transferee gives notice of the transfer in the manner and to the persons hereafter provided (Section 6—107).

Section 6—106. Application of the Proceeds.

In addition to the requirements of the two preceding sections:

(1) Upon every bulk transfer subject to this Article for which new consideration becomes payable except those made by sale at auction it is the duty of the transferee to assure that such consideration is applied so far as necessary to pay those debts of the transferor which are either shown on the list furnished by the transferor (Section 6—104) or filed in writing in the place stated in the notice (Section 6—107) within thirty days after the mailing of such notice. This duty of the transferee runs to all the holders of such debts, and may be enforced by any of them for the benefit of all.

(2) If any of said debts are in dispute the necessary sum may be withheld from distribution until the dispute is settled or adjudicated.

(3) If the consideration payable is not enough to pay all of the said debts in full distribution shall be made pro rata.

## Section 6—107. The Notice.

(1) The notice to creditors (Section 6—105) shall state:

(a) That a bulk transfer is about to be made; and

(b) the names and business addresses of the transferor and transferee, and all other business names and addresses used by the transferor within three years last past so far as known to the transferee; and

(c) whether or not all the debts of the transferor are to be paid in full as they fall due as a result of the transaction, and if so, the address to which creditors should send their bills.

(2) If the debts of the transferor are not to be paid in full as they fall due or if the transferee is in doubt on that point then the notice shall state further:

(a) the location and general description of the property to be transferred and the estimated total of the transferor's debts;

(b) the address where the schedule of property and list of creditors (Section 6—104) may be inspected;

(c) whether the transfer is to pay existing debts and if so the amount of such debts and to whom owing;

(d) whether the transfer is for new consideration and if so the amount of such consideration and the time and place of payment; and

(e) if for new consideration the time and place where creditors of the transferor are to file their claims.

(3) The notice in any case shall be delivered personally or sent by registered or certified mail to all the persons shown on the list of creditors furnished by the transferor (Section 6—104) and to all other persons who are known to the transferee to hold or assert claims against the transferor.

## Section 6—108. Auction Sales; "Auctioneer."

(1) A bulk transfer is subject to this Article even though it is by sale at auction, but only in the manner and with the results stated in this section.

(2) The transferor shall furnish a list of his creditors and assist in the preparation of a schedule of the property to be sold, both prepared as before stated (Section 6—104).

(3) The person or persons other than the transferor who direct, control or are responsible for the auction are collectively called the "auctioneer." The auctioneer shall:

(a) receive and retain the list of creditors and prepare and retain the schedule of property for the period stated in this Article (Section 6—104);

(b) give notice of the auction personally or by registered or certified mail at least ten days before it occurs to all persons shown on the list of creditors and to all other persons who are known to him to hold or assert claims against the transferor; and

(c) assure that the net proceeds of the auction are applied as provided in this Article (Section 6—106).

(4) Failure of the auctioneer to perform any of these duties does not affect the validity of the sale or the title of the purchasers, but if the auctioneer knows that the auction constitutes a bulk transfer such failure renders the auctioneer liable to the creditors of the transferor as a class for the sums owing to them from the transferor up to but not exceeding the net proceeds of the auction. If the auctioneer consists of several persons their liability is joint and several.

## Section 6—109. What Creditors Protected; Credit for Payment to Particular Creditors.

(1) The creditors of the transferor mentioned in this Article are those holding claims based on transactions or events occurring before the bulk transfer, but creditors who become such after notice to creditors is given (Sections 6—105 and 6—107) are not entitled to notice.

(2) Against the aggregate obligation imposed by the provisions of this Article concerning the application of the proceeds (Section 6—106 and subsection (3) (c) of 6—108) the transferee or auctioneer is entitled to credit for sums paid to particular creditors of the transferor, not exceeding the sums believed in good faith at the time of the payment to be properly payable to such creditors.

## Section 6—110. Subsequent Transfers.

When the title of a transferee to property is subject to a defect by reason of his non-compliance with the requirements of this Article, then:

(1) a purchaser of any of such property from such transferee who pays no value or who takes with notice of such non-compliance takes subject to such defect, but

(2) a purchaser for value in good

faith and without such notice takes free of such defect.

Section 6—111. Limitation of Actions and Levies.

No action under this Article shall be brought nor levy made more than six months after the date on which the transferee took possession of the goods unless the transfer has been concealed. If the transfer has been concealed, actions may be brought or levies made within six months after its discovery.

#### ARTICLE 7

### WAREHOUSE RECEIPTS, BILLS OF LADING AND OTHER DOCUMENTS OF TITLE

#### PART 1

#### GENERAL

Section 7—101. Short Title.

This Article shall be known and may be cited as Uniform Commercial Code—Documents of Title.

Section 7—102. Definitions and Index of Definitions.

(1) In this Article, unless the context otherwise requires:

(a) "Bailee" means the person who by a warehouse receipt, bill of lading or other document of title acknowledges possession of goods and contracts to deliver them.

(b) "Consignee" means the person named in a bill to whom or to whose order the bill promises delivery.

(c) "Consignor" means the person named in a bill as the person from whom the goods have been received for shipment.

(d) "Delivery order" means a written order to deliver goods directed to a warehouseman, carrier or other person who in the ordinary course of business issues warehouse receipts or bills of lading.

(e) "Document" means document of title as defined in the general definitions in Article 1 (Section 1—201).

(f) "Goods" means all things which are treated as movable for the purposes of a contract of storage or transportation.

(g) "Issuer" means a bailee who issues a document except that in relation to an unaccepted delivery order it means the person who orders the possessor of goods to deliver. Issuer includes any person for whom an agent or employee purports to act in issuing a document if the agent or employee has real or apparent authority to issue documents, notwithstanding that the issuer received no

goods or that the goods were misdescribed or that in any other respect the agent or employee violated his instructions.

(h) "Warehouseman" is a person engaged in the business of storing goods for hire.

(2) Other definitions applying to this Article or to specified Parts thereof, and the sections in which they appear are:

"Duly negotiable." Section 7—501.

"Person entitled under the document." Section 7—403(4).

(3) Definitions in other Articles applying to this Article and the sections in which they appear are:

"Contract for sale." Section 2—106.

"Overseas." Section 2—323.

"Receipt" of goods. Section 2—103.

(4) In addition Article 1 contains general definitions and principles of construction and interpretation applicable throughout this Article.

Section 7—103. Relation of Article to Treaty, Statute, Tariff, Classification or Regulation.

To the extent that any treaty or statute of the United States, regulatory statute of this State or tariff, classification or regulation filed or issued pursuant thereto is applicable, the provisions of this Article are subject thereto.

Section 7—104. Negotiable and Non-Negotiable Warehouse Receipt, Bill of Lading or Other Document of Title.

(1) A warehouse receipt, bill of lading or other document of title is negotiable

(a) if by its terms the goods are to be delivered to bearer or to the order of a named person; or

(b) where recognized in overseas trade, if it runs to a named person or assigns.

(2) Any other document is non-negotiable. A bill of lading in which it is stated that the goods are consigned to a named person is not made negotiable by a provision that the goods are to be delivered only against a written order signed by the same or another named person.

Section 7—105. Construction Against Negative Implication.

The omission from either Part 2 or Part 3 of this Article of a provision corresponding to a provision made in the other Part does not imply that a corresponding rule of law is not applicable.

PART 2  
WAREHOUSE RECEIPTS:  
SPECIAL PROVISIONS

Section 7—201. Who May Issue a Warehouse Receipt; Storage Under Government Bond.

(1) A warehouse receipt may be issued by any warehouseman.

(2) Where goods including distilled spirits and agricultural commodities are stored under a statute requiring a bond against withdrawal or a license for the issuance of receipts in the nature of warehouse receipts, a receipt issued for the goods has like effect as a warehouse receipt even though issued by a person who is the owner of the goods and is not a warehouseman.

Section 7—202. Form of Warehouse Receipt; Essential Terms; Optional Terms.

(1) A warehouse receipt need not be in any particular form.

(2) Unless a warehouse receipt embodies within its written or printed terms each of the following, the warehouseman is liable for damages caused by the omission to a person injured thereby:

(a) the location of the warehouse where the goods are stored;

(b) the date of issue of the receipt;

(c) the consecutive number of the receipt;

(d) a statement whether the goods received will be delivered to the bearer, to a specified person, or to a specified person or his order;

(e) the rate of storage and handling charges, except that where goods are stored under a field warehousing arrangement a statement of that fact is sufficient on a non-negotiable receipt;

(f) a description of the goods or of the packages containing them;

(g) the signature of the warehouseman, which may be made by his authorized agent;

(h) if the receipt is issued for goods of which the warehouseman is owner, either solely or jointly or in common with others, the fact of such ownership; and

(i) a statement of the amount of advances made and of liabilities incurred for which the warehouseman claims a lien or security interest (Section 7—209). If the precise amount of such advances made or of such liabilities incurred is, at the time of the issue of the receipt, unknown to the warehouseman or to his agent who issues it, a statement of the

fact that advances have been made or liabilities incurred and the purpose thereof is sufficient.

(3) A warehouseman may insert in his receipt any other terms which are not contrary to the provisions of this Act and do not impair his obligation of delivery (Section 7—403) or his duty of care (Section 7—204). Any contrary provisions shall be ineffective.

Section 7—203. Liability for Non-Receipt or Misdescription.

A party to or purchaser for value in good faith of a document of title other than a bill of lading relying in either case upon the description therein of the goods may recover from the issuer damages caused by the non-receipt or misdescription of the goods, except to the extent that the document conspicuously indicates that the issuer does not know whether any part or all of the goods in fact were received or conform to the description, as where the description is in terms of marks or labels or kind, quantity or condition, or the receipt or description is qualified by "contents, condition and quality unknown," "said to contain" or the like, if such indication be true, or the party or purchaser otherwise has notice.

Section 7—204. Duty of Care; Contractual Limitation of Warehouseman's Liability.

(1) A warehouseman is liable for damages for loss of or injury to the goods caused by his failure to exercise such care in regard to them as a reasonably careful man would exercise under like circumstances but unless otherwise agreed he is not liable for damages which could not have been avoided by the exercise of such care.

(2) Damages may be limited by a term in the warehouse receipt or storage agreement limiting the amount of liability in case of loss or damage, and setting forth a specific liability per article or item, or value per unit of weight, beyond which the warehouseman shall not be liable; provided, however, that such liability may on written request of the bailor at the time of signing such storage agreement or within a reasonable time after receipt of the warehouse receipt be increased on part or all of the goods thereunder, in which event increased rates may be charged based on such increased valuation, but that no such increase shall be

permitted contrary to a lawful limitation of liability contained in the warehouseman's tariff, if any. No such limitation is effective with respect to the warehouseman's liability for conversion to his own use.

(3) Reasonable provisions as to the time and manner of presenting claims and instituting actions based on the bailment may be included in the warehouse receipt or tariff.

(4) This section does not impair or repeal Texas Revised Civil Statutes of 1925, Articles 5545 and 5546.

Section 7—205. Title Under Warehouse Receipt Defeated in Certain Cases.

A buyer in the ordinary course of business of fungible goods sold and delivered by a warehouseman who is also in the business of buying and selling such goods takes free of any claim under a warehouse receipt even though it has been duly negotiated.

Section 7—206. Termination of Storage at Warehouseman's Option.

(1) A warehouseman may on notifying the person on whose account the goods are held and any other person known to claim an interest in the goods require payment of any charges and removal of the goods from the warehouse at the termination of the period of storage fixed by the document, or, if no period is fixed, within a stated period not less than thirty days after the notification. If the goods are not removed before the date specified in the notification, the warehouseman may sell them in accordance with the provisions of the section on enforcement of a warehouseman's lien (Section 7—210).

(2) If a warehouseman in good faith believes that the goods are about to deteriorate or decline in value to less than the amount of his lien within the time prescribed in subsection (1) for notification, advertisement and sale, the warehouseman may specify in the notification any reasonable shorter time for removal of the goods and in case the goods are not removed, may sell them at public sale held not less than one week after a single advertisement or posting.

(3) If as a result of a quality or condition of the goods of which the warehouseman had no notice at the time of deposit the goods are a hazard to other property or to the warehouse or to persons, the warehouseman may sell the goods at public or private sale without advertisement

on reasonable notification to all persons known to claim an interest in the goods. If the warehouseman after a reasonable effort is unable to sell the goods he may dispose of them in any lawful manner and shall incur no liability by reason of such disposition.

(4) The warehouseman must deliver the goods to any person entitled to them under this Article upon due demand made at any time prior to sale or other disposition under this section.

(5) The warehouseman may satisfy his lien from the proceeds of any sale or disposition under this section but must hold the balance for delivery on the demand of any person to whom he would have been bound to deliver the goods.

Section 7—207. Goods Must Be Kept Separate; Fungible Goods.

(1) Unless the warehouse receipt otherwise provides, a warehouseman must keep separate the goods covered by each receipt so as to permit at all times identification and delivery of those goods except that different lots of fungible goods may be commingled.

(2) Fungible goods so commingled are owned in common by the persons entitled thereto and the warehouseman is severally liable to each owner for that owner's share. Where because of overissue a mass of fungible goods is insufficient to meet all the receipts which the warehouseman has issued against it, the persons entitled include all holders to whom overissued receipts have been duly negotiated.

Section 7—208. Altered Warehouse Receipts.

Where a blank in a negotiable warehouse receipt has been filled in without authority, a purchaser for value and without notice of the want of authority may treat the insertion as authorized. Any other unauthorized alteration leaves any receipt enforceable against the issuer according to its original tenor.

Section 7—209. Lien of Warehouseman.

(1) (a) A warehouseman has a lien against the bailor on the goods covered by a warehouse receipt or on the proceeds thereof in his possession for charges for storage or transportation (including demurrage and terminal charges), insurance, labor, or charges present or future in relation to the goods, and for expenses necessary for preservation of the

goods or reasonably incurred in their sale pursuant to law.

(b) If the person on whose account the goods are held is liable for like charges or expenses in relation to other goods whenever deposited and it is stated in the receipt that a lien is claimed for charges and expenses in relation to other goods, the warehouseman also has a lien against him for such charges and expenses whether or not the other goods have been delivered by the warehouseman. But against a person to whom a negotiable warehouse receipt is duly negotiated a warehouseman's lien is limited to charges in an amount or at a rate specified on the receipt or if no charges are so specified then to a reasonable charge for storage of the goods covered by the receipt subsequent to the date of the receipt.

(2) The warehouseman may also reserve a security interest against the bailor for a maximum amount specified on the receipt for charges other than those specified in subsection (1), such as for money advanced and interest. Such a security interest is governed by the Article on Secured Transactions (Article 9).

(3) A warehouseman's lien for charges and expenses under subsection (1) or a security interest under subsection (2) is also effective against any person who so entrusted the bailor with possession of the goods that a pledge of them by him to a good faith purchaser for value would have been valid but is not effective against a person as to whom the document confers no right in the goods covered by it under Section 7—503. However, the warehouseman's specific lien for charges and expenses under subsection (1)(a) is effective against any security interest. If the warehouseman learns of a perfected security interest owned by a person as to whom the document confers no right in the goods covered by it under Section 7—503 against the goods and fails thereafter to give such secured party (Section 9—105) written notice of the accrued and unpaid charges and expenses at the time when they have accrued for between two and six months, then the warehouseman's specific lien under subsection (1)(a) is effective as against such secured party only with respect to unpaid charges and expenses which have accrued by the end of six months.

(4) A warehouseman loses his lien on any goods which he voluntarily de-

livers or which he unjustifiably refuses to deliver.

#### Section 7—210. Enforcement of Warehouseman's Lien.

(1) Except as provided in subsection (2), a warehouseman's lien may be enforced by public or private sale of the goods in block or in parcels, at any time or place and on any terms which are commercially reasonable, after notifying all persons known to claim an interest in the goods. Such notification must include a statement of the amount due, the nature of the proposed sale and the time and place of any public sale. The fact that a better price could have been obtained by a sale at a different time or in a different method from that selected by the warehouseman is not of itself sufficient to establish that the sale was not made in a commercially reasonable manner. If the warehouseman either sells the goods in the usual manner in any recognized market therefor, or if he sells at the price current in such market at the time of his sale, or if he has otherwise sold in conformity with commercially reasonable practices among dealers in the type of goods sold, he has sold in a commercially reasonable manner. A sale of more goods than apparently necessary to be offered to insure satisfaction of the obligation is not commercially reasonable except in cases covered by the preceding sentence.

(2) A warehouseman's lien on goods other than goods stored by a merchant in the course of his business may be enforced only as follows:

(a) All persons known to claim an interest in the goods must be notified.

(b) The notification must be delivered in person or sent by registered or certified letter to the last known address of any person to be notified.

(c) The notification must include an itemized statement of the claim, a description of the goods subject to the lien, a demand for payment within a specified time not less than ten days after receipt of the notification, and a conspicuous statement that unless the claim is paid within that time the goods will be advertised for sale and sold by auction at a specified time and place.

(d) The sale must conform to the terms of the notification.

(e) The sale must be held at the nearest suitable place to that where the goods are held or stored.

(f) After the expiration of the time given in the notification, an advertise-

ment of the sale must be published once a week for two weeks consecutively in a newspaper of general circulation where the sale is to be held. The advertisement must include a description of the goods, the name of the person on whose account they are being held, and the time and place of the sale. The sale must take place at least fifteen days after the first publication. If there is no newspaper of general circulation where the sale is to be held, the advertisement must be posted at least ten days before the sale in not less than six conspicuous places in the neighborhood of the proposed sale.

(3) Before any sale pursuant to this section any person claiming a right in the goods may pay the amount necessary to satisfy the lien and the reasonable expenses incurred under this section. In that event the goods must not be sold, but must be retained by the warehouseman subject to the terms of the receipt and this Article.

(4) The warehouseman may buy at any public sale pursuant to this section.

(5) A purchaser in good faith of goods sold to enforce a warehouseman's lien takes the goods free of any rights of persons against whom the lien was valid, despite noncompliance by the warehouseman with the requirements of this section.

(6) The warehouseman may satisfy his lien from the proceeds of any sale pursuant to this section but must hold the balance, if any, for delivery on demand to any person to whom he would have been bound to deliver the goods.

(7) The rights provided by this section shall be in addition to all other rights allowed by law to a creditor against his debtor.

(8) Where a lien is on goods stored by a merchant in the course of his business the lien may be enforced in accordance with either subsection (1) or (2).

(9) The warehouseman is liable for damages caused by failure to comply with the requirements for sale under this section and in case of willful violation is liable for conversion.

### PART 3

#### BILLS OF LADING; SPECIAL PROVISIONS

Section 7—301. Liability for Non-Receipt or Misdescription; "Said to

Contain"; "Shipper's Load and Count"; Improper Handling.

(1) a consignee of a non-negotiable bill who has given value in good faith or a holder to whom a negotiable bill has been duly negotiated relying in either case upon the description therein of the goods, or upon the date therein shown, may recover from the issuer damages caused by the misdating of the bill or the non-receipt or misdescription of the goods, except to the extent that the document indicates that the issuer does not know whether any part or all of the goods in fact were received or conform to the description, as where the description is in terms of marks or labels or kind, quantity, or condition or the receipt or description is qualified by "contents or condition of contents of packages unknown," "said to contain," "shipper's weight, load and count" or the like, if such indication be true.

(2) When goods are loaded by an issuer who is a common carrier, the issuer must count the packages of goods if package freight and ascertain the kind and quantity if bulk freight. In such cases "shipper's weight, load and count" or other words indicating that the description was made by the shipper are ineffective except as to freight concealed by packages.

(3) When bulk freight is loaded by a shipper who makes available to the issuer adequate facilities for weighing such freight, an issuer who is a common carrier must ascertain the kind and quantity within a reasonable time after receiving the written request of the shipper to do so. In such cases "shipper's weight" or other words of like purport are ineffective.

(4) The issuer may by inserting in the bill the words "shipper's weight, load and count" or other words of like purport indicate that the goods were loaded by the shipper, and if such statement be true the issuer shall not be liable for damages caused by the improper loading. But their omission does not imply liability for such damages.

(5) The shipper shall be deemed to have guaranteed to the issuer the accuracy at the time of shipment of the description, marks, labels, number, kind, quantity, condition and weight, as furnished by him; and the shipper shall indemnify the issuer against damage caused by inaccuracies in such particulars. The right of the



issuer to such indemnity shall in no way limit his responsibility and liability under the contract of carriage to any person other than the shipper.

**Section 7—302. Through Bills of Lading and Similar Documents.**

(1) The issuer of a through bill of lading or other document embodying an undertaking to be performed in part by persons acting as its agents or by connecting carriers is liable to anyone entitled to recover on the document for any breach by such other persons or by a connecting carrier of its obligation under the document but to the extent that the bill covers an undertaking to be performed overseas or in territory not contiguous to the continental United States or an undertaking including matters other than transportation this liability may be varied by agreement of the parties.

(2) Where goods covered by a through bill of lading or other document embodying an undertaking to be performed in part by persons other than the issuer are received by any such person, he is subject with respect to his own performance while the goods are in his possession to the obligation of the issuer. His obligation is discharged by delivery of the goods to another such person pursuant to the document, and does not include liability for breach by any other such persons or by the issuer.

(3) The issuer of such through bill of lading or other document shall be entitled to recover from the connecting carrier or such other person in possession of the goods when the breach of the obligation under the document occurred, the amount it may be required to pay to anyone entitled to recover on the document therefor, as may be evidenced by any receipt, judgment, or transcript thereof, and the amount of any expense reasonably incurred by it in defending any action brought by anyone entitled to recover on the document therefor.

**Section 7—303. Diversion; Reconsignment; Change of Instructions.**

(1) Unless the bill of lading otherwise provides, the carrier may deliver the goods to a person or destination other than that stated in the bill or may otherwise dispose of the goods on instructions from

(a) the holder of a negotiable bill; or

(b) the consignor on a non-negotiable bill notwithstanding contrary instructions from the consignee; or

(c) the consignee on a non-negotiable bill in the absence of contrary instructions from the consignor, if the goods have arrived at the billed destination or if the consignee is in possession of the bill; or

(d) the consignee on a non-negotiable bill if he is entitled as against the consignor to dispose of them.

(2) Unless such instructions are noted on a negotiable bill of lading, a person to whom the bill is duly negotiated can hold the bailee according to the original terms.

**Section 7—304. Bills of Lading in a Set.**

(1) Except where customary in overseas transportation, a bill of lading must not be issued in a set of parts. The issuer is liable for damages caused by violation of this subsection.

(2) Where a bill of lading is lawfully drawn in a set of parts, each of which is numbered and expressed to be valid only if the goods have not been delivered against any other part, the whole of the parts constitute one bill.

(3) Where a bill of lading is lawfully issued in a set of parts and different parts are negotiated to different persons, the title of the holder to whom the first due negotiation is made prevails as to both the document and the goods even though any later holder may have received the goods from the carrier in good faith and discharged the carrier's obligation by surrender of his part.

(4) Any person who negotiates or transfers a single part of a bill of lading drawn in a set is liable to holders of that part as if it were the whole set.

(5) The bailee is obliged to deliver in accordance with Part 4 of this Article against the first presented part of a bill of lading lawfully drawn in a set. Such delivery discharges the bailee's obligation on the whole bill.

**Section 7—305. Destination Bills.**

(1) Instead of issuing a bill of lading to the consignor at the place of shipment a carrier may at the request of the consignor procure the bill to be issued at destination or at any other place designated in the request.

(2) Upon request of anyone entitled as against the carrier to control the goods while in transit and on surrender of any outstanding bill of

lading or other receipt covering such goods, the issuer may procure a substitute bill to be issued at any place designated in the request.

**Section 7—306. Altered Bills of Lading.**

An unauthorized alteration or filling in of a blank in a bill of lading leaves the bill enforceable according to its original tenor.

**Section 7—307. Lien of Carrier.**

(1) A carrier has a lien on the goods covered by a bill of lading for charges subsequent to the date of its receipt of the goods for storage or transportation (including demurrage and terminal charges) and for expenses necessary for preservation of the goods incident to their transportation or reasonably incurred in their sale pursuant to law. But against a purchaser for value of a negotiable bill of lading a carrier's lien is limited to charges stated in the bill or the applicable tariffs, or if no charges are stated then to a reasonable charge.

(2) A lien for charges and expenses under subsection (1) on goods which the carrier was required by law to receive for transportation is effective against the consignor or any person entitled to the goods unless the carrier had notice that the consignor lacked authority to subject the goods to such charges and expenses. Any other lien under subsection (1) is effective against the consignor and any person who permitted the bailor to have control or possession of the goods unless the carrier had notice that the bailor lacked such authority.

(3) A carrier loses his lien on any goods which he voluntarily delivers or which he unjustifiably refuses to deliver.

**Section 7—308. Enforcement of Carrier's Lien.**

(1) A carrier's lien may be enforced by public or private sale of the goods, in bloc or in parcels, at any time or place and on any terms which are commercially reasonable, after notifying all persons known to claim an interest in the goods. Such notification must include a statement of the amount due, the nature of the proposed sale and the time and place of any public sale. The fact that a better price could have been obtained by a sale at a different time or in a different method from that selected

by the carrier is not of itself sufficient to establish that the sale was not made in a commercially reasonable manner. If the carrier either sells the goods in the usual manner in any recognized market therefor or if he sells at the price current in such market at the time of his sale or if he has otherwise sold in conformity with commercially reasonable practices among dealers in the type of goods sold he has sold in a commercially reasonable manner. A sale of more goods than apparently necessary to be offered to ensure satisfaction of the obligation is not commercially reasonable except in cases covered by the preceding sentence.

(2) Before any sale pursuant to this section any person claiming a right in the goods may pay the amount necessary to satisfy the lien and the reasonable expenses incurred under this section. In that event the goods must not be sold, but must be retained by the carrier subject to the terms of the bill and this Article.

(3) The carrier may buy at any public sale pursuant to this section.

(4) A purchaser in good faith of goods sold to enforce a carrier's lien takes the goods free of any rights of persons against whom the lien was valid, despite noncompliance by the carrier with the requirements of this section.

(5) The carrier may satisfy his lien from the proceeds of any sale pursuant to this section but must hold the balance, if any, for delivery on demand to any person to whom he would have been bound to deliver the goods.

(6) The rights provided by this section shall be in addition to all other rights allowed by law to a creditor against his debtor.

(7) A carrier's lien may be enforced in accordance with either subsection (1) or the procedure set forth in subsection (2) of Section 7—210.

(8) The carrier is liable for damages caused by failure to comply with the requirements for sale under this section and in case of willful violation is liable for conversion.

**Section 7—309. Duty of Care; Contractual Limitation of Carrier's Liability.**

(1) A carrier who issues a bill of lading whether negotiable or non-negotiable must exercise the degree of care in relation to the goods which

a reasonably careful man would exercise under like circumstances. This subsection does not repeal or change any law or rule of law which imposes liability upon a common carrier for damages not caused by its negligence.

(2) Damages may be limited by a provision that the carrier's liability shall not exceed a value stated in the document if the carrier's rates are dependent upon value and the consignor by the carrier's tariff is afforded an opportunity to declare a higher value or a value as lawfully provided in the tariff, or where no tariff is filed he is otherwise advised of such opportunity; but no such limitation is effective with respect to the carrier's liability for conversion to its own use.

(3) Reasonable provisions as to the time and manner of presenting claims and instituting actions based on the shipment may be included in a bill of lading or tariff.

#### PART 4

#### WAREHOUSE RECEIPTS AND BILLS OF LADING: GENERAL OBLIGATIONS

Section 7—401. Irregularities in Issue of Receipt or Bill or Conduct of Issuer.

The obligations imposed by this Article on an issuer apply to a document of title regardless of the fact that

(a) the document may not comply with the requirements of this Article or of any other law or regulation regarding its issue, form or content; or

(b) the issuer may have violated laws regulating the conduct of his business; or

(c) the goods covered by the document were owned by the bailee at the time the document was issued; or

(d) the person issuing the document does not come within the definition of warehouseman if it purports to be a warehouse receipt.

Section 7—402. Duplicate Receipt or Bill; Overissue.

Neither a duplicate nor any other document of title purporting to cover goods already represented by an outstanding document of the same issuer confers any right in the goods, except as provided in the case of bills in a set, overissue of documents for fungible goods and substitutes for lost, stolen or destroyed documents. But the issuer is liable for damages caused by his overissue or failure to

identify a duplicate document as such by conspicuous notation on its face.

Section 7—403. Obligation of Warehouseman or Carrier to Deliver; Excuse.

(1) The bailee must deliver the goods to a person entitled under the document who complies with subsections (2) and (3), unless and to the extent that the bailee establishes any of the following:

(a) delivery of the goods to a person whose receipt was rightful as against the claimant;

(b) damage to or delay, loss or destruction of the goods for which the bailee is not liable, but the burden of establishing negligence in case of damage or destruction by fire is on the person entitled under the document;

(c) previous sale or other disposition of the goods in lawful enforcement of a lien or on warehouseman's lawful termination of storage;

(d) the exercise by a seller of his right to stop delivery pursuant to the provisions of the Article on Sales (Section 2—705);

(e) a diversion, reconsignment or other disposition pursuant to the provisions of this Article (Section 7—303) or tariff regulating such right;

(f) release, satisfaction or any other fact affording a personal defense against the claimant;

(g) any other lawful excuse.

(2) A person claiming goods covered by a document of title must satisfy the bailee's lien where the bailee so requests or where the bailee is prohibited by law from delivering the goods until the charges are paid.

(3) Unless the person claiming is one against whom the document confers no right under Sec. 7—503 (1), he must surrender for cancellation or notation of partial deliveries any outstanding negotiable document covering the goods, and the bailee must cancel the document or conspicuously note the partial delivery thereon or be liable to any person to whom the document is duly negotiated.

(4) "Person entitled under the document" means holder in the case of a negotiable document, or the person to whom delivery is to be made by the terms of or pursuant to written instructions under a non-negotiable document.

Section 7—404. No Liability for Good Faith Delivery Pursuant to Receipt or Bill.

A bailee who in good faith includ-

ing observance of reasonable commercial standards has received goods and delivered or otherwise disposed of them according to the terms of the document of title or pursuant to this Article is not liable therefor. This rule applies even though the person from whom he received the goods had no authority to procure the document or to dispose of the goods and even though the person to whom he delivered the goods had no authority to receive them.

#### PART 5

#### WAREHOUSE RECEIPTS AND BILLS OF LADING: NEGOTIATION AND TRANSFER

Section 7—501. Form of Negotiation and Requirements of "Due Negotiation."

(1) A negotiable document of title running to the order of a named person is negotiated by his indorsement and delivery. After his indorsement in blank or to bearer any person can negotiate it by delivery alone.

(2) (a) A negotiable document of title is also negotiated by delivery alone when by its original terms it runs to bearer.

(b) When a document running to the order of a named person is delivered to him the effect is the same as if the document had been negotiated.

(3) Negotiation of a negotiable document of title after it has been indorsed to a specified person requires indorsement by the special indorsee as well as delivery.

(4) A negotiable document of title is "duly negotiated" when it is negotiated in the manner stated in this section to a holder who purchases it in good faith without notice of any defense against or claim to it on the part of any person and for value, unless it is established that the negotiation is not in the regular course of business or financing or involves receiving the document in settlement or payment of a money obligation.

(5) Indorsement of a non-negotiable document neither makes it negotiable nor adds to the transferee's rights.

(6) The naming in a negotiable bill of a person to be notified of the arrival of the goods does not limit the negotiability of the bill nor constitute notice to a purchaser thereof of any interest of such person in the goods.

Section 7—502. Rights Acquired by Due Negotiation.

(1) Subject to the following section and to the provisions of Section 7—205 on fungible goods, a holder to whom a negotiable document of title has been duly negotiated acquires thereby:

(a) title to the document;

(b) title to the goods;

(c) All rights accruing under the law of agency or estoppel, including rights to goods delivered to the bailee after the document was issued; and

(d) the direct obligation of the issuer to hold or deliver the goods according to the terms of the document free of any defense or claim by him except those arising under the terms of the document or under this Article. In the case of a delivery order the bailee's obligation accrues only upon acceptance and the obligation acquired by the holder is that the issuer and any indorser will procure the acceptance of the bailee.

(2) Subject to the following section, title and rights so acquired are not defeated by any stoppage of the goods represented by the document or by surrender of such goods by the bailee, and are not impaired even though the negotiation or any prior negotiation constituted a breach of duty or even though any person has been deprived of possession of the document by misrepresentation, fraud, accident, mistake, duress, loss, theft or conversion, or even though a previous sale or other transfer of the goods or document has been made to a third person.

Section 7—503. Document of Title to Goods Defeated in Certain Cases.

(1) A document of title confers no right in goods against a person who before issuance of the document had a legal interest or a perfected security interest in them and who neither

(a) delivered or entrusted them or any document of title covering them to the bailor or his nominee with actual or apparent authority to ship, store or sell or with power to obtain delivery under this Article (Section 7—403) or with power of disposition under this Act (Sections 2—403 and 9—307) or other statute or rule of law; nor

(b) acquiesced in the procurement by the bailor or his nominee of any document of title.

(2) Title to goods based upon an unaccepted delivery order is subject to the rights of anyone to whom a negotiable warehouse receipt or bill of lading covering the goods has been

duly negotiated. Such a title may be defeated under the next section to the same extent as the rights of the issuer or a transferee from the issuer.

(3) Title to goods based upon a bill of lading issued to a freight forwarder is subject to the rights of anyone to whom a bill issued by the freight forwarder is duly negotiated; but delivery by the carrier in accordance with Part 4 of this Article pursuant to its own bill of lading discharges the carrier's obligation to deliver.

Section 7—504. Rights Acquired in the Absence of Due Negotiation; Effect of Diversion; Seller's Stoppage of Delivery.

(1) A transferee of a document, whether negotiable or non-negotiable, to whom the document has been delivered but not duly negotiated, acquires the title and rights which his transferor had or had actual authority to convey.

(2) In the case of a non-negotiable document, until but not after the bailee receives notification of the transfer, the rights of the transferee may be defeated

(a) by those creditors of the transferor who could treat the sale as void under Section 2—402; or

(b) by a buyer from the transferor in ordinary course of business if the bailee has delivered the goods to the buyer or received notification of his rights; or

(c) as against the bailee by good faith dealings of the bailee with the transferor.

(3) A diversion or other change of shipping instructions by the consignor in a non-negotiable bill of lading which causes the bailee not to deliver to the consignee defeats the consignee's title to the goods if they have been delivered to a buyer in ordinary course of business and in any event defeats the consignee's rights against the bailee.

(4) Delivery pursuant to a non-negotiable document may be stopped by a seller under Section 2—705, and subject to the requirement of due notification there provided. A bailee honoring the seller's instructions is entitled to be indemnified by the seller against any resulting loss or expense.

Section 7—505. Indorser Not a Guarantor for Other Parties.

The indorsement of a document of title issued by a bailee does not make the indorser liable for any default by the bailee or by previous indorsers.

Section 7—506. Delivery Without

Indorsement: Right to Compel Indorsement.

The transferee of a negotiable document of title has a specifically enforceable right to have his transferor supply any necessary indorsement but the transfer becomes a negotiation only as of the time the indorsement is supplied.

Section 7—507. Warranties on Negotiation or Transfer of Receipt or Bill.

Where a person negotiates or transfers a document of title for value otherwise than as a mere intermediary under the next following section, then unless otherwise agreed he warrants to his immediate purchaser only in addition to any warranty made in selling the goods

(a) that the document is genuine; and

(b) that he has no knowledge of any fact which would impair its validity or worth; and

(c) that his negotiation or transfer is rightful and fully effective with respect to the title to the document and the goods it represents.

Section 7—508. Warranties of Collecting Bank as to Documents.

A collecting bank or other intermediary known to be entrusted with documents on behalf of another or with collection of a draft or other claim against delivery of documents warrants by such delivery of the documents only its own good faith and authority. This rule applies even though the intermediary has purchased or made advances against the claim or draft to be collected.

Section 7—509. Receipt or Bill: When Adequate Compliance With Commercial Contract.

The question whether a document is adequate to fulfill the obligations of a contract for sale or the conditions of a credit is governed by the Articles on Sales (Article 2) and on Letters of Credit (Article 5).

## PART 6

### WAREHOUSE RECEIPTS AND BILLS OF LADING: MISCELLANEOUS PROVISIONS

Section 7—601. Lost and Missing Documents.

(1) If a document has been lost, stolen or destroyed, a court may order delivery of the goods or issuance of a substitute document and the bailee may without liability to any person comply with such order. If the docu-

ment was negotiable the claimant must post security approved by the court to indemnify any person who may suffer loss as a result of non-surrender of the document. If the document was not negotiable, such security may be required at the discretion of the court. The court may also in its discretion order payment of the bailee's reasonable costs and counsel fees.

(2) A bailee who without court order delivers goods to a person claiming under a missing negotiable document is liable to any person injured thereby, and if the delivery is not in good faith becomes liable for conversion. Delivery in good faith is not conversion if made in accordance with a filed classification or tariff or, where no classification or tariff is filed, if the claimant posts security with the bailee in an amount at least double the value of the goods at the time of posting to indemnify any person injured by the delivery who files a notice of claim within one year after the delivery.

**Section 7—602. Attachment of Goods Covered by a Negotiable Document.**

Except where the document was originally issued upon delivery of the goods by a person who had no power to dispose of them, no lien attaches by virtue of any judicial process to goods in the possession of a bailee for which a negotiable document of title is outstanding unless the document be first surrendered to the bailee or its negotiation enjoined, and the bailee shall not be compelled to deliver the goods pursuant to process until the document is surrendered to him or impounded by the court. One who purchases the document for value without notice of the process or injunction takes free of the lien imposed by judicial process.

**Section 7—603. Conflicting Claims; Interpleader.**

If more than one person claims title or possession of the goods, the bailee is excused from delivery until he has had a reasonable time to ascertain the validity of the adverse claims or to bring an action to compel all claimants to interplead and may compel such interpleader, either in defending an action for non-delivery of the goods, or by original action, whichever is appropriate.

**ARTICLE 8  
INVESTMENT SECURITIES  
PART 1  
SHORT TITLE AND GENERAL  
MATTERS**

**Section 8—101. Short Title.**

This Article shall be known and may be cited as Uniform Commercial Code—Investment Securities.

**Section 8—102. Definitions and Index of Definitions.**

(1) In this Article unless the context otherwise requires

(a) A "security" is an instrument which

(i) is issued in bearer or registered form; and

(ii) is of a type commonly dealt in upon securities exchanges or markets or commonly recognized in any area in which it is issued or dealt in as a medium for investment; and

(iii) is either one of a class or series or by its terms is divisible into a class or series of instruments; and

(iv) evidences a share, participation or other interest in property or in an enterprise or evidences an obligation of the issuer.

(b) A writing which is a security is governed by this Article and not by Uniform Commercial Code—Commercial Paper even though it also meets the requirements of that Article. This Article does not apply to money.

(c) A security is in "registered form" when it specifies a person entitled to the security or to the rights it evidences and when its transfer may be registered upon books maintained for that purpose by or on behalf of an issuer or the security so states.

(d) A security is in "bearer form" when it runs to bearer according to its terms and not by reason of any indorsement.

(2) A "subsequent purchaser" is a person who takes other than by original issue.

(3) A "clearing corporation" is a corporation all of the capital stock of which is held by or for a national securities exchange or association registered under a statute of the United States such as the Securities Exchange Act of 1934.

(4) A "custodian bank" is any bank or trust company which is supervised and examined by state or federal authority having supervision over banks and which is acting as custodian for a clearing corporation.

(5) Other definitions applying to this Article or to specified Parts thereof and the sections in which they appear are:

"Adverse claim." Section 8—301.

"Bona fide purchaser." Section 8—302.

"Broker." Section 8—303.

"Guarantee of the signature." Section 8—402.

"Intermediary bank." Section 4—105.

"Issuer." Section 8—201.

"Overissue." Section 8—104.

(6) In addition Article 1 contains general definitions and principles of construction and interpretation applicable throughout this Article.

Section 8—103. Issuer's Lien.

A lien upon a security in favor of an issuer thereof it valid against a purchaser only if the right of the issuer to such lien is noted conspicuously on the security.

Section 8—104. Effect of Overissue; "Overissue."

(1) The provisions of this Article which validate a security or compel its issue or reissue do not apply to the extent that validation, issue or reissue would result in overissue; but

(a) if an identical security which does not constitute an overissue is reasonably available for purchase, the person entitled to issue or validation may compel the issuer to purchase and deliver such a security to him against surrender of the security, if any, which he holds; or

(b) if a security is not so available for purchase, the person entitled to issue or validation may recover from the issuer the price he or the last purchaser for value paid for it with interest from the date of his demand.

(2) "Overissue" means the issue of securities in excess of the amount which the issuer has corporate power to issue.

Section 8—105. Securities Negotiable; Presumptions.

(1) Securities governed by this Article are negotiable instruments.

(2) In any action on a security

(a) unless specifically denied in the pleadings, each signature on the security or in a necessary indorsement is admitted;

(b) when the effectiveness of a signature is put in issue the burden of establishing it is on the party claiming under the signature but the signature is presumed to be genuine or authorized;

(c) when signatures are admitted or established production of the instrument entitles a holder to recover on it unless the defendant establishes a defense or a defect going to the validity of the security; and

(d) after it is shown that a defense or defect exists the plaintiff has the burden of establishing that he or some person under whom he claims is a person against whom the defense or defect is ineffective (Section 8—202).

Section 8—106. Applicability

The validity of a security and the rights and duties of the issuer with respect to registration of transfer are governed by the law (including the conflict of laws rules) of the jurisdiction of organization of the issuer.

Section 8—107. Securities Deliverable; Action for Price.

(1) Unless otherwise agreed and subject to any applicable law or regulation respecting short sales, a person obligated to deliver securities may deliver any security of the specified issue in bearer form or registered in the name of the transferee or indorsed to him or in blank.

(2) When the buyer fails to pay the price as it comes due under a contract of sale the seller may recover the price

(a) of securities accepted by the buyer; and

(b) of other securities if efforts at their resale would be unduly burdensome or if there is no readily available market for their resale.

## PART 2

### ISSUE—ISSUER

Section 8—201. "Issuer."

(1) With respect to obligations on or defenses to a security "issuer" includes a person who

(a) places or authorizes the placing of his name on a security (otherwise than as authenticating trustee, registrar, transfer agent or the like) to evidence that it represents a share, participation or other interest in his property or in an enterprise or to evidence his duty to perform an obligation evidenced by the security; or

(b) directly or indirectly creates fractional interests in his rights or property which fractional interests are evidenced by securities; or

(c) becomes responsible for or in place of any other person described as an issuer in this section.

(2) With respect to obligations on or defenses to a security a guarantor

is an issuer to the extent of his guaranty whether or not his obligation is noted on the security.

(3) With respect to registration of transfer (Part 4 of this Article) "issuer" means a person on whose behalf transfer books are maintained.

Section 8—202. Issuer's Responsibility and Defenses; Notice of Defect or Defense.

(1) Even against a purchaser for value and without notice, the terms of a security include those stated on the security and those made part of the security by reference to another instrument, indenture or document or to a constitution, statute, ordinance, rule, regulation, order or the like to the extent that the terms so referred to do not conflict with the stated terms. Such a reference does not of itself charge a purchaser for value with notice of a defect going to the validity of the security even though the security expressly states that a person accepting it admits such notice.

(2)(a) A security other than one issued by a government or governmental agency or unit even though issued with a defect going to its validity is valid in the hands of a purchaser for value and without notice of the particular defect unless the defect involves a violation of constitutional provisions in which case the security is valid in the hands of a subsequent purchaser for value and without notice of the defect.

(b) The rule of subparagraph (a) applies to an issuer which is a government or governmental agency or unit only if either there has been substantial compliance with the legal requirements governing the issue or the issuer has received a substantial consideration for the issue as a whole or for the particular security and a stated purpose of the issue is one for which the issuer has power to borrow money or issue the security.

(3) Except as otherwise provided in the case of certain unauthorized signatures on issue (Section 8—205), lack of genuineness of a security is a complete defense even against a purchaser for value and without notice.

(4) All other defenses of the issuer including nondelivery and conditional delivery of the security are ineffective against a purchaser for value who has taken without notice of the particular defense.

(5) Nothing in this section shall

be construed to affect the right of a party to a "when, as and if issued" or a "when distributed" contract to cancel the contract in the event of a material change in the character of the security which is the subject of the contract or in the plan or arrangement pursuant to which such security is to be issued or distributed.

Section 8—203. Staleness as Notice of Defects or Defenses.

(1) After an act or event which creates a right to immediate performance of the principal obligation evidenced by the security or which sets a date on or after which the security is to be presented or surrendered for redemption or exchange, a purchaser is charged with notice of any defect in its issue or defense of the issuer

(a) if the act or event is one requiring the payment of money or the delivery of securities or both on presentation or surrender of the security and such funds or securities are available on the date set for the payment or exchange and he takes the security more than one year after that date; and

(b) if the act or event is not covered by paragraph (a) and he takes the security more than two years after the date set for surrender or presentation or the date on which such performance became due.

(2) A call which has been revoked is not within subsection (1).

Section 8—204. Effect of Issuer's Restrictions on Transfer.

Unless noted conspicuously on the security a restriction on transfer imposed by the issuer even though otherwise lawful is ineffective except against a person with actual knowledge of it.

Section 8—205. Effect of Unauthorized Signature on Issue.

An unauthorized signature placed on a security prior to or in the course of issue is ineffective except that the signature is effective in favor of a purchaser for value and without notice of the lack of authority if the signing has been done by

(a) an authenticating trustee, registrar, transfer agent or other person entrusted by the issuer with the signing of the security or of similar securities or their immediate preparation for signing; or

(b) an employee of the issuer or of any of the foregoing entrusted with responsible handling of the security.



**Section 8—206. Completion or Alteration of Instrument.**

(1) Where a security contains the signatures necessary to its issue or transfer but is incomplete in any other respect

(a) any person may complete it by filling in the blanks as authorized; and

(b) even though the blanks are incorrectly filled in, the security as completed is enforceable by a purchaser who took it for value and without notice of such incorrectness.

(2) A complete security which has been improperly altered even though fraudulently remains enforceable but only according to its original terms.

**Section 8—207. Rights of Issuer With Respect to Registered Owners.**

(1) Prior to due presentment for registration of transfer of a security in registered form the issuer or indenture trustee may treat the registered owner as to the person exclusively entitled to vote, to receive notifications and otherwise to exercise all the rights and powers of an owner.

(2) Nothing in this Article shall be construed to affect the liability of the registered owner of a security for calls, assessments or the like.

**Section 8—208. Effect of Signature of Authenticating Trustee, Registrar or Transfer Agent.**

(1) A person placing his signature upon a security as authenticating trustee, registrar, transfer agent or the like warrants to a purchaser for value without notice of the particular defect that

(a) the security is genuine; and

(b) his own participation in the issue of the security is within his capacity and within the scope of the authorization received by him from the issuer; and

(c) he has reasonable grounds to believe that the security is in the form and within the amount the issuer is authorized to issue.

(2) Unless otherwise agreed, a person by so placing his signature does not assume responsibility for the validity of the security in other respects.

**PART 3  
PURCHASE**

**Section 8-301. Rights Acquired by Purchaser; "Adverse Claim"; Title Acquired by Bona Fide Purchaser.**

(1) Upon delivery of a security the purchaser acquires the rights in the

security which his transferor had or had actual authority to convey except that a purchaser who has himself been a party to any fraud or illegality affecting the security or who as a prior holder had notice of an adverse claim cannot improve his position by taking from a later bona fide purchaser. "Adverse claim" includes a claim that a transfer was or would be wrongful or that a particular adverse person is the owner of or has an interest in the security.

(2) A bona fide purchaser in addition to acquiring the rights of a purchaser also acquires the security free of any adverse claim.

(3) A purchaser of a limited interest acquires rights only to the extent of the interest purchased.

**Section 8—302. "Bona Fide Purchaser."**

A "bona fide purchaser" is a purchaser for value in good faith and without notice of any adverse claim who takes delivery of a security in bearer form or of one in registered form issued to him or indorsed to him or in blank.

**Section 8—303. "Broker."**

"Broker" means a person engaged for all or part of his time in the business of buying and selling securities, who in the transaction concerned acts for, or buys a security from or sells a security to a customer. Nothing in this Article determines the capacity in which a person acts for purposes of any other statute or rule to which such person is subject.

**Section 8—304. Notice to Purchaser of Adverse Claims.**

(1) A purchaser (including a broker for the seller or buyer but excluding an intermediary bank) of a security is charged with notice of adverse claims if

(a) the security whether in bearer or registered form has been indorsed "for collection" or "for surrender" or for some other purpose not involving transfer; or

(b) the security is in bearer form and has on it an unambiguous statement that it is the property of a person other than the transferor. The mere writing of a name on a security is not such a statement.

(2) The fact that the purchaser (including a broker for the seller or buyer) has notice that the security is held for a third person or is registered in the name of or indorsed by a fidu-

ciary does not create a duty of inquiry into the rightfulness of the transfer or constitute notice of adverse claims. If, however, the purchaser (excluding an intermediary bank) has knowledge that the proceeds are being used or that the transaction is for the individual benefit of the fiduciary or otherwise in breach of duty, the purchaser is charged with notice of adverse claims.

**Section 8—305. Staleness as Notice of Adverse Claims.**

An act or event which creates a right to immediate performance of the principal obligation evidenced by the security or which sets a date on or after which the security is to be presented or surrendered for redemption or exchange does not of itself constitute any notice of adverse claims except in the case of a purchase

(a) after one year from any date set for such presentment or surrender for redemption or exchange; or

(b) after six months from any date set for payment of money against presentation or surrender of the security if funds are available for payment on that date.

**Section 8—306. Warranties on Presentment and Transfer.**

(1) A person who presents a security for registration of transfer or for payment or exchange warrants to the issuer that he is entitled to the registration, payment or exchange. But a purchaser for value without notice of adverse claims who receives a new, reissued or re-registered security on registration of transfer warrants only that he has no knowledge of any unauthorized signature (Section 8—311) in a necessary indorsement.

(2) A person by transferring a security to a purchaser for value warrants only that

(a) his transfer is effective and rightful; and

(b) the security is genuine and has not been materially altered; and

(c) he knows no fact which might impair the validity of the security.

(3) Where a security is delivered by an intermediary known to be entrusted with delivery of the security on behalf of another or with collection of a draft or other claim against such delivery, the intermediary by such delivery warrants only his own good faith and authority even though he has purchased or made advances against the claim to be collected against the delivery.

(4) A pledgee or other holder for security who redelivers the security received, or after payment and on order of the debtor delivers that security to a third person makes only the warranties of an intermediary under subsection (3).

(5) A broker gives to his customer and to the issuer and a purchaser the warranties provided in this section and has the rights and privileges of a purchaser under this section. The warranties of and in favor of the broker acting as an agent are in addition to applicable warranties given by and in favor of his customer.

**Section 8—307. Effect of Delivery Without Indorsement; Right to Compel Indorsement.**

Where a security in registered form has been delivered to a purchaser without a necessary indorsement he may become a bona fide purchaser only as of the time the indorsement is supplied, but against the transferor the transfer is complete upon delivery and the purchaser has a specifically enforceable right to have any necessary indorsement supplied.

**Section 8—308. Indorsement, How Made; Special Indorsement; Indorser Not a Guarantor; Partial Assignment.**

(1) An indorsement of a security in registered form is made when an appropriate person signs on it or on a separate document an assignment or transfer of the security or a power to assign or transfer it or when the signature of such person is written without more upon the back of the security.

(2) An indorsement may be in blank or special. An indorsement in blank includes an indorsement to bearer. A special indorsement specifies the person to whom the security is to be transferred, or who has power to transfer it. A holder may convert a blank indorsement into a special indorsement.

(3) "An appropriate person" in subsection (1) means

(a) the person specified by the security or by special indorsement to be entitled to the security; or

(b) where the person so specified is described as a fiduciary but is no longer serving in the described capacity,—either that person or his successor; or

(c) where the security or indorsement so specifies more than one person as fiduciaries and one or more are no longer serving in the described capacity,—the remaining fiduciary or fiduciaries, whether or not a succes-

sor has been appointed or qualified; or

(d) where the person so specified is an individual and is without capacity to act by virtue of death, incompetency, infancy or otherwise,—his executor, administrator, guardian or like fiduciary; or

(e) where the security or indorsement so specifies more than one person as tenants by the entirety or with right of survivorship and by reason of death all cannot sign,—the survivor or survivors; or

(f) a person having power to sign under applicable laws or controlling instrument; or

(g) to the extent that any of the foregoing persons may act through an agent,—his authorized agent.

(4) Unless otherwise agreed the indorser by his indorsement assumes no obligation that the security will be honored by the issuer.

(5) An indorsement purporting to be only of part of a security representing units intended by the issuer to be separately transferable is effective to the extent of the indorsement.

(6) Whether the person signing is appropriate is determined as of the date of signing and an indorsement by such a person does not become unauthorized for the purposes of this Article by virtue of any subsequent change of circumstances.

(7) Failure of a fiduciary to comply with a controlling instrument or with the law of the state having jurisdiction of the fiduciary relationship, including any law requiring the fiduciary to obtain court approval of the transfer, does not render his indorsement unauthorized for the purposes of this Article.

Section 8—309. Effect of Indorsement Without Delivery.

An indorsement of a security whether special or in blank does not constitute a transfer until delivery of the security on which it appears or if the indorsement is on a separate document until delivery of both the document and the security.

Section 8—310. Indorsement of Security in Bearer Form.

An indorsement of a security in bearer form may give notice of adverse claims (Section 8—304) but does not otherwise affect any right to registration the holder may possess.

Section 8—311. Effect of Unauthorized Indorsement.

Unless the owner has ratified an unauthorized indorsement or is oth-

erwise precluded from asserting its ineffectiveness

(a) he may assert its ineffectiveness against the issuer or any purchaser other than a purchaser for value and without notice of adverse claims who has in good faith received a new, reissued or re-registered security on registration of transfer; and

(b) an issuer who registers the transfer of a security upon the unauthorized indorsement is subject to liability for improper registration (Section 8—404).

Section 8—312. Effect of Guaranteeing Signature or Indorsement.

(1) Any person guaranteeing a signature of an indorser of a security warrants that at the time of signing

(a) the signature was genuine; and

(b) the signer was an appropriate person to indorse (Section 8—308); and

(c) the signer had legal capacity to sign.

But the guarantor does not otherwise warrant the rightfulness of the particular transfer.

(2) Any person may guarantee an indorsement of a security and by so doing warrants not only the signature (subsection 1) but also the rightfulness of the particular transfer in all aspects. But no issuer may require a guarantee of indorsement as a condition to registration of transfer.

(3) The foregoing warranties are made to any person taking or dealing with the security in reliance on the guarantee and the guarantor is liable to such person for any loss resulting from breach of the warranties.

Section 8—313. When Delivery to the Purchaser Occurs; Purchaser's Broker as Holder.

(1) Delivery to a purchaser occurs when

(a) he or a person designated by him acquires possession of a security; or

(b) his broker acquires possession of a security specially indorsed to or issued in the name of the purchaser; or

(c) his broker sends him confirmation of the purchase and also by book entry or otherwise identifies a specific security in the broker's possession as belonging to the purchaser; or

(d) with respect to an identified security to be delivered while still in the possession of a third person when that person acknowledges that he holds for the purchaser; or

(e) appropriate entries on the books of a clearing corporation are made under Section 8—320.

(2) The purchaser is the owner of a security held for him by his broker, but is not the holder except as specified in subparagraphs (b), (c) and (e) of subsection (1). Where a security is part of a fungible bulk the purchaser is the owner of a proportionate property interest in the fungible bulk.

(3) Notice of an adverse claim received by the broker or by the purchaser after the broker takes delivery as a holder for value is not effective either as to the broker or as to the purchaser. However, as between the broker and the purchaser the purchaser may demand delivery of an equivalent security as to which no notice of an adverse claim has been received.

#### Section 8—314. Duty to Deliver, When Completed.

(1) Unless otherwise agreed where a sale of a security is made on an exchange or otherwise through brokers

(a) the selling customer fulfills his duty to deliver when he places such a security in the possession of the selling broker or of a person designated by the broker or if requested causes an acknowledgment to be made to the selling broker that it is held for him; and

(b) the selling broker including a correspondent broker acting for a selling customer fulfills his duty to deliver by placing the security or a like security in the possession of the buying broker or a person designated by him or by effecting clearance of the sale in accordance with the rules of the exchange on which the transaction took place.

(2) Except as otherwise provided in this section and unless otherwise agreed, a transferor's duty to deliver a security under a contract of purchase is not fulfilled until he places the security in form to be negotiated by the purchaser in the possession of the purchaser or of a person designated by him or at the purchaser's request causes an acknowledgment to be made to the purchaser that it is held for him. Unless made on an exchange a sale to a broker purchasing for his own account is within this subsection and not within subsection (1).

#### Section 8—315. Action Against Purchaser Based Upon Wrongful Transfer.

(1) Any person against whom the transfer of a security is wrongful for any reason, including his incapacity, may against anyone except a bona fide purchaser reclaim possession of the security or obtain possession of any new security evidencing all or part of the same rights or have damages.

(2) If the transfer is wrongful because of an unauthorized indorsement, the owner may also reclaim or obtain possession of the security or new security even from a bona fide purchaser if the ineffectiveness of the purported indorsement can be asserted against him under the provisions of this Article on unauthorized indorsements (Section 8—311).

(3) The right to obtain or reclaim possession of a security may be specifically enforced and its transfer enjoined and the security impounded pending the litigation.

#### Section 8—316. Purchaser's Right to Requisites for Registration of Transfer on Books.

Unless otherwise agreed the transferor must on due demand supply his purchaser with any proof of his authority to transfer or with any other requisite which may be necessary to obtain registration of the transfer of the security but if the transfer is not for value a transferor need not do so unless the purchaser furnishes the necessary expenses. Failure to comply with a demand made within a reasonable time gives the purchaser the right to reject or rescind the transfer.

#### Section 8—317. Attachment or Levy Upon Security.

(1) No attachment or levy upon a security or any share or other interest evidenced thereby which is outstanding shall be valid until the security is actually seized by the officer making the attachment or levy but a security which has been surrendered to the issuer may be attached or levied upon at the source.

(2) A creditor whose debtor is the owner of a security shall be entitled to such aid from courts of appropriate jurisdiction, by injunction or otherwise, in reaching such security or in satisfying the claim by means thereof as is allowed at law or in equity in regard to property which cannot readily be attached or levied upon by ordinary legal process.

**Section 8—318. No Conversion by Good Faith Delivery.**

An agent or bailee who in good faith (including observance of reasonable commercial standards if he is in the business of buying, selling or otherwise dealing with securities) has received securities and sold, pledged or delivered them according to the instructions of his principal is not liable for conversion or for participation in breach of fiduciary duty although the principal had no right to dispose of them.

**Section 8—319. Statute of Frauds.**

A contract for the sale of securities is not enforceable by way of action or defense unless

(a) there is some writing signed by the party against whom enforcement is sought or by his authorized agent or broker sufficient to indicate that a contract has been made for sale of a stated quantity of described securities at a defined or stated price; or

(b) delivery of the security has been accepted or payment has been made but the contract is enforceable under this provision only to the extent of such delivery or payment; or

(c) within a reasonable time a writing in confirmation of the sale or purchase and sufficient against the sender under paragraph (a) has been received by the party against whom enforcement is sought and he has failed to send written objection to its contents within ten days after its receipt; or

(d) the party against whom enforcement is sought admits in his pleading, testimony or otherwise in court that a contract was made for sale of a stated quantity of described securities at a defined or stated price.

**Section 8—320. Transfer or Pledge within a Central Depository System.**

(1) If a security

(a) is in the custody of a clearing corporation or of a custodian bank or a nominee of either subject to the instructions of the clearing corporation; and

(b) is in bearer form or indorsed in blank by an appropriate person or registered in the name of the clearing corporation or custodian bank or a nominee of either; and

(c) is shown on the account of a transferor or pledgor on the books of the clearing corporation; then, in addition to other methods, a transfer or pledge of the security or

any interest therein may be effected by the making of appropriate entries on the books of the clearing corporation reducing the account of the transferor or pledgor and increasing the account of the transferee or pledgee by the amount of the obligation or the number of shares or rights transferred or pledged.

(2) Under this section entries may be with respect to like securities or interests therein as a part of a fungible bulk and may refer merely to a quantity of a particular security without reference to the name of the registered owner, certificate or bond number or the like and, in appropriate cases, may be on a net basis taking into account other transfers or pledges of the same security.

(3) A transfer or pledge under this section has the effect of a delivery of a security in bearer form or duly indorsed in blank (Section 8—301) representing the amount of the obligation or the number of shares or rights transferred or pledged. If a pledge or the creation of a security interest is intended, the making of entries has the effect of a taking of delivery by the pledgee or a secured party (Sections 9—304 and 9—305). A transferee or pledgee under this section is a holder.

(4) A transfer or pledge under this section does not constitute a registration of transfer under Part 4 of this Article.

(5) That entries made on the books of the clearing corporation as provided in subsection (1) are not appropriate does not affect the validity or effect of the entries nor the liabilities or obligations of the clearing corporation to any person adversely affected thereby.

**PART 4**

**REGISTRATION**

**Section 8—401. Duty of Issuer to Register Transfer.**

(1) Where a security in registered form is presented to the issuer with a request to register transfer, the issuer is under a duty to register the transfer as requested if

(a) the security is indorsed by the appropriate person or persons (Section 8—308); and

(b) reasonable assurance is given that those indorsements are genuine and effective (Section 8—402); and

(c) the issuer has no duty to inquire into adverse claims or has dis-

charged any such duty (Section 8—403); and

(d) any applicable law relating to the collection of taxes has been complied with; and

(e) the transfer is in fact rightful or is to a bona fide purchaser.

(2) Where an issuer is under a duty to register a transfer of a security the issuer is also liable to the person presenting it for registration or his principal for loss resulting from any unreasonable delay in registration or from failure or refusal to register the transfer.

**Section 8—402. Assurance That Indorsements Are Effective.**

(1) The issuer may require the following assurance that each necessary indorsement (Section 8—308) is genuine and effective

(a) in all cases, a guarantee of the signature (subsection (1) of Section 8—312) of the person indorsing; and

(b) where the indorsement is by an agent, appropriate assurance of authority to sign;

(c) where the indorsement is by a fiduciary, appropriate evidence of appointment or incumbency;

(d) where there is more than one fiduciary, reasonable assurance that all who are required to sign have done so;

(e) where the indorsement is by a person not covered by any of the foregoing, assurance appropriate to the case corresponding as nearly as may be to the foregoing.

(2) A "guarantee of the signature" in subsection (1) means a guarantee signed by or on behalf of a person reasonably believed by the issuer to be responsible. The issuer may adopt standards with respect to responsibility provided such standards are not manifestly unreasonable.

(3) "Appropriate evidence of appointment or incumbency" in subsection (1) means

(a) in the case of a fiduciary appointed or qualified by a court, a certificate issued by or under the direction or supervision of that court or an officer thereof and dated within sixty days before the date of presentation for transfer; or

(b) in any other case, a copy of a document showing the appointment or a certificate issued by or on behalf of a person reasonably believed by the issuer to be responsible or, in the absence of such a document or certificate, other evidence reasonably deemed by the issuer to be appropri-

ate. The issuer may adopt standards with respect to such evidence provided such standards are not manifestly unreasonable. The issuer is not charged with notice of the contents of any document obtained pursuant to this paragraph (b) except to the extent that the contents relate directly to the appointment or incumbency.

(4) The issuer may elect to require reasonable assurance beyond that specified in this section but if it does so and for a purpose other than that specified in subsection 3(b) both requires and obtains a copy of a will, trust, indenture, articles of co-partnership, by-laws or other controlling instrument it is charged with notice of all matters contained therein affecting the transfer.

**Section 8—403. Limited Duty of Inquiry.**

(1) An issuer to whom a security is presented for registration is under a duty to inquire into adverse claims if

(a) a written notification of an adverse claim is received at a time and in a manner which affords the issuer a reasonable opportunity to act on it prior to the issuance of a new, reissued or re-registered security and the notification identifies the claimant, the registered owner and the issue of which the security is a part and provides an address for communications directed to the claimant; or

(b) the issuer is charged with notice of an adverse claim from a controlling instrument which it has elected to require under subsection (4) of Section 8—402.

(2) The issuer may discharge any duty of inquiry by any reasonable means, including notifying an adverse claimant by registered or certified mail at the address furnished by him or if there be no such address at his residence or regular place of business that the security has been presented for registration of transfer by a named person, and that the transfer will be registered unless within thirty days from the date of mailing the notification, either

(a) an appropriate restraining order, injunction or other process issues from a court of competent jurisdiction; or

(b) an indemnity bond sufficient in the issuer's judgment to protect the issuer and any transfer agent, registrar or other agent of the issuer involved, from any loss which it or they

may suffer by complying with the adverse claim is filed with the issuer.

(3) Unless an issuer is charged with notice of an adverse claim from a controlling instrument which it has elected to require under subsection (4) of Section 8—402 or receives notification of an adverse claim under subsection (1) of this section, where a security presented for registration is indorsed by the appropriate person or persons the issuer is under no duty to inquire into adverse claims. In particular

(a) an issuer registering a security in the name of a person who is a fiduciary or who is described as a fiduciary is not bound to inquire into the existence, extent, or correct description of the fiduciary relationship and thereafter the issuer may assume without inquiry that the newly registered owner continues to be the fiduciary until the issuer receives written notice that the fiduciary is no longer acting as such with respect to the particular security;

(b) an issuer registering transfer on an indorsement by a fiduciary is not bound to inquire whether the transfer is made in compliance with a controlling instrument or with the law of the state having jurisdiction of the fiduciary relationship, including any law requiring the fiduciary to obtain court approval of the transfer; and

(c) the issuer is not charged with notice of the contents of any court record or file or other recorded or unrecorded document even though the document is in its possession and even though the transfer is made on the indorsement of a fiduciary to the fiduciary himself or to his nominee.

Section 8—404. Liability and Non-Liability for Registration.

(1) Except as otherwise provided in any law relating to the collection of taxes, the issuer is not liable to the owner or any other person suffering loss as a result of the registration of a transfer of a security if

(a) there were on or with the security the necessary indorsements (Section 8—308); and

(b) the issuer had no duty to inquire into adverse claims or has discharged any such duty (Section 8—403).

(2) Where an issuer has registered a transfer of a security to a person not entitled to it the issuer on demand must deliver a like security to the true owner unless

(a) the registration was pursuant to subsection (1); or

(b) the owner is precluded from asserting any claim for registering the transfer under subsection (1) of the following section; or

(c) such delivery would result in overissue, in which case the issuer's liability is governed by Section 8—104.

Section 8—405. Lost, Destroyed and Stolen Securities.

(1) Where a security has been lost, apparently destroyed or wrongfully taken and the owner fails to notify the issuer of that fact within a reasonable time after he has notice of it and the issuer registered a transfer of the security before receiving such notification, the owner is precluded from asserting against the issuer any claim for registering the transfer under the preceding section or any claim to a new security under this section.

(2) Where the owner of a security claims that the security has been lost, destroyed or wrongfully taken, the issuer must issue a new security in place of the original security if the owner

(a) so requests before the issuer has notice that the security has been acquired by a bona fide purchaser; and

(b) files with the issuer a sufficient indemnity bond; and

(c) satisfies any other reasonable requirements imposed by the issuer.

(3) If, after the issue of the new security, a bona fide purchaser of the original security presents it for registration of transfer, the issuer must register the transfer unless registration would result in overissue, in which event the issuer's liability is governed by Section 8—104. In addition to any rights on the indemnity bond, the issuer may recover the new security from the person to whom it was issued or any person taking under him except a bona fide purchaser.

Section 8—406. Duty of Authenticating Trustee, Transfer Agent or Registrar

(1) Where a person acts as authenticating trustee, transfer agent, registrar, or other agent for an issuer in the registration of transfers of its securities or in the issue of new securities or in the cancellation of surrendered securities

(a) he is under a duty to the issuer to exercise good faith and due diligence in performing his functions; and

(b) he has with regard to the particular functions he performs the same obligation to the holder or owner of the security and has the same rights and privileges as the issuer has in regard to those functions.

(2) Notice to an authenticating trustee, transfer agent, registrar or other such agent is notice to the issuer with respect to the functions performed by the agent.

#### ARTICLE 9

### SECURED TRANSACTIONS; SALES OF ACCOUNTS, CONTRACT RIGHTS AND CHattel PAPER

#### PART 1

### SHORT TITLE, APPLICABILITY AND DEFINITIONS

#### Section 9—101. Short Title.

This Article shall be known and may be cited as Uniform Commercial Code—Secured Transactions.

Section 9—102. Policy and Scope of Article.

(1) Except as otherwise provided in Section 9—103 on multiple state transactions and in Section 9—104 on excluded transactions, this Article applies so far as concerns any personal property and fixtures within the jurisdiction of this State.

(a) to any transaction (regardless of its form) which is intended to create a security interest in personal property or fixtures including goods, documents, instruments, general intangibles, chattel paper, accounts or contract rights; and also

(b) to any sale of accounts, contract rights or chattel paper.

(2) This Article applies to security interests created by contract including pledge, assignment, chattel mortgage, chattel trust, trust deed, factor's lien, equipment trust, conditional sale, trust receipt, other lien or title retention contract and lease or consignment intended as security. This Article does not apply to statutory liens except as provided in Section 9—310.

(3) The application of this Article to a security interest in a secured obligation is not affected by the fact that the obligation is itself secured by a transaction or interest to which this Article does not apply.

Section 9—103. Accounts, Contract Rights, General Intangibles and Equipment Relating to Another Jurisdiction; and Incoming Goods Already Subject to a Security Interest.

(1) If the office where the assignor or of accounts or contract rights keeps his records concerning them is in this state, the validity and perfection of a security interest therein and the possibility and effect of proper filing is governed by this Article; otherwise by the law (including the conflict of laws rules) of the jurisdiction where such office is located.

(2) If the chief place of business of a debtor is in this state, this Article governs the validity and perfection of a security interest and the possibility and effect of proper filing with regard to general intangibles or with regard to goods of a type which are normally used in more than one jurisdiction (such as automotive equipment, rolling stock, airplanes, road building equipment, commercial harvesting equipment, construction machinery and the like) if such goods are classified as equipment or classified as inventory by reason of their being leased by the debtor to others. Otherwise, the law (including the conflict of laws rules) of the jurisdiction where such chief place of business is located shall govern. If the chief place of business is located in a jurisdiction which does not provide for perfection of the security interest by filing or recording in that jurisdiction, then the security interest may be perfected by filing in this state. For the purpose of determining the validity and perfection of a security interest in an airplane, the chief place of business of a debtor who is a foreign air carrier under the Federal Aviation Act of 1958, as amended, is the designated office of the agent upon whom service of process may be made on behalf of the debtor.

(3) If personal property other than that governed by subsections (1) and (2) is already subject to a security interest when it is brought into this state, the validity of the security interest in this state is to be determined by the law (including the conflict of laws rules) of the jurisdiction where the property was when the security interest attached. However, if the parties to the transaction understood at the time that the security interest attached that the property would be kept in this state and it was brought into this state within 30 days after the security interest attached for purposes other than transportation through this state, then the validity of the



security interest in this state is to be determined by the law of this state. If the security interest was already perfected under the law of the jurisdiction where the property was when the security interest attached and before being brought into this state, the security interest continues perfected in this state for four months and also thereafter if within the four month period it is perfected in this state. The security interest may also be perfected in this state after the expiration of the four month period; in such case perfection dates from the time of perfection in this state. If the security interest was not perfected under the law of the jurisdiction where the property was when the security interest attached and before being brought into this state, it may be perfected in this state; in such case perfection dates from the time of perfection in this state.

(4) Notwithstanding subsections (2) and (3), if personal property is covered by a certificate of title issued under a statute of this state or any other jurisdiction which requires indication on a certificate of title of any security interest in the property as a condition of perfection, then the perfection is governed by the law of the jurisdiction which issued the certificate.

(5) Notwithstanding subsection (1) and Section 9—302, if the office where the assignor of accounts or contract rights keeps his records concerning them is not located in a jurisdiction which is a part of the United States, its territories or possessions, and the accounts or contract rights are within the jurisdiction of this state or the transaction which creates the security interest otherwise bears an appropriate relation to this state, this Article governs the validity and perfection of the security interest and the security interest may only be perfected by notification to the account debtor.

Section 9—104. Transactions Excluded From Article.

This Article does not apply

(a) to a security interest subject to any statute of the United States such as the Ship Mortgage Act, 1920, to the extent that such statute governs the rights of parties to and third parties affected by transactions in particular types of property; or

(b) to a landlord's lien; or

(c) to a lien given by statute or

other rule of law for services or materials except as provided in Section 9—310 on priority of such liens; or

(d) to a transfer of a claim for wages, salary or other compensation of an employee; or

(e) to an equipment trust covering railway rolling stock; or

(f) to a sale of accounts, contract rights or chattel paper as part of a sale of the business out of which they arose, or an assignment of accounts, contract rights or chattel paper which is for the purpose of collection only, or a transfer of a contract right to an assignee who is also to do the performance under the contract; or

(g) to a transfer of an interest or claim in or under any policy of insurance; or

(h) to a right represented by a judgment; or

(i) to any right of set-off; or

(j) except to the extent that provision is made for fixtures in Section 9—313, to the creation or transfer of an interest in or lien on real estate, including a lease or rents thereunder; or

(k) to a transfer in whole or in part of any of the following: any claim arising out of tort; any deposit, savings, passbook or like account maintained with a bank, savings and loan association, credit union or like organization.

Section 9—105. Definitions and Index of Definitions.

(1) In this Article unless the context otherwise requires:

(a) "Account debtor" means the person who is obligated on an account, chattel paper, contract right or general intangible;

(b) "Chattel paper" means a writing or writings which evidence both a monetary obligation and a security interest in or a lease of specific goods. When a transaction is evidenced both by such a security agreement or a lease and by an instrument or a series of instruments, the group of writings taken together constitutes chattel paper;

(c) "Collateral" means the property subject to a security interest, and includes accounts, contract rights and chattel paper which have been sold;

(d) "Debtor" means the person who owes payment or other performance of the obligation secured, whether or not he owns or has rights in

the collateral, and includes the seller of accounts, contract rights or chattel paper. Where the debtor and the owner of the collateral are not the same person, the term "debtor" means the owner of the collateral in any provision of the Article dealing with the collateral, the obligor in any provision dealing with the obligation, and may include both where the context so requires;

(e) "Document" means document of title as defined in the general definitions of Article 1 (Section 1—201);

(f) "Goods" includes all things which are movable at the time the security interest attaches or which are fixtures (Section 9—§18), but does not include money, documents, instruments, accounts, chattel paper, general intangibles, contract rights and other things in action. "Goods" also include the unborn young of animals and growing crops;

(g) "Instrument" means a negotiable instrument (defined in Section 3—104), or a security (defined in Section 8—102) or any other writing which evidences a right to the payment of money and is not itself a security agreement or lease and is of a type which is in ordinary course of business transferred by delivery with any necessary indorsement or assignment;

(h) "Security agreement" means an agreement which creates or provides for a security interest;

(i) "Secured party" means a lender, seller or other person in whose favor there is a security interest, including a person to whom accounts, contract rights or chattel paper have been sold. When the holders of obligations issued under an indenture of trust, equipment trust agreement or the like are represented by a trustee or other person, the representative is the secured party.

(2) Other definitions applying to this Article and the sections in which they appear are:

"Account." Section 9—106.

"Consumer goods." Section 9—109(1).

"Contract right." Section 9—106.

"Equipment." Section 9—109(2).

"Farm products." Section 9—109(3).

"General intangibles." Section 9—106.

"Inventory." Section 9—109(4).

"Lien creditor." Section 9—301(3).

"Proceeds." Section 9—306(1).

"Purchase money security interest." Section 9—107.

(3) The following definitions in other Articles apply to this Article:

"Check." Section 3—104.

"Contract for sale." Section 2—106.

"Holder in due course." Section 3—302.

"Note." Section 3—104.

"Sale." Section 2—106.

(4) In addition Article 1 contains general definitions and principles of construction and interpretation applicable throughout this Article.

Section 9—106. Definitions: "Account"; "Contract Right"; "General Intangibles."

"Account" means any right to payment for goods sold or leased or for services rendered which is not evidenced by an instrument or chattel paper. "Contract right" means any right to payment under a contract not yet earned by performance and not evidenced by an instrument or chattel paper. "General intangibles" means any personal property (including things in action) other than goods, accounts, contract rights, chattel paper, documents and instruments.

Section 9—107. Definitions: "Purchase Money Security Interest."

A security interest is a "purchase money security interest" to the extent that it is

(a) taken or retained by the seller of the collateral to secure all or part of its price; or

(b) taken by a person who by making advances or incurring an obligation gives value to enable the debtor to acquire rights in or the use of collateral if such value is in fact so used.

Section 9—108. When After-Acquired Collateral Not Security for Antecedent Debt.

Where a secured party makes an advance, incurs an obligation, releases a perfected security interest, or otherwise gives new value which is to be secured in whole or in part by after-acquired property his security interest in the after-acquired collateral shall be deemed to be taken for new value and not as security for an antecedent debt if the debtor acquires his rights in such collateral either in the ordinary course of his business or under a contract of purchase made pursuant to the security agreement within a reasonable time after new value is given.

Section 9—109. Classification of Goods; "Consumer Goods"; "Equipment"; "Farm Products"; "Inventory."

Goods are

(1) "consumer goods" if they are used or bought for use primarily for personal, family or household purposes;

(2) "equipment" if they are used or bought for use primarily in business (including farming or a profession) or by a debtor who is a non-profit organization or a governmental subdivision or agency or if the goods are not included in the definitions of inventory, farm products or consumer goods;

(3) "farm products" if they are crops or livestock or supplies used or produced in farming operations or if they are products of corps or livestock in their unmanufactured states (such as ginned cotton, wool-clip, maple syrup, milk and eggs), and if they are in the possession of a debtor engaged in raising, fattening, grazing or other farming operations. If goods are farm products they are neither equipment nor inventory;

(4) "inventory" if they are held by a person who holds them for sale or lease or to be furnished under contracts of service or if he has so furnished them, or if they are raw materials, work in process or materials used or consumed in a business. Inventory of a person is not to be classified as his equipment.

Section 9—110. Sufficiency of Description.

For the purposes of this Article any description of personal property or real estate is sufficient whether or not it is specific if it reasonably identifies what is described.

Section 9—111. Applicability of Bulk Transfer Laws.

The creation of a security interest is not a bulk transfer under Article 6 (see Section 6—103).

Section 9—112. Where Collateral Is Not Owned by Debtor.

Unless otherwise agreed, when a secured party knows that collateral is owned by a person who is not the debtor, the owner of the collateral is entitled to receive from the secured party any surplus under Section 9—502(2) or under Section 9—504(1), and is not liable for the debt or for any deficiency after resale, and he has the same right as the debtor

(a) to receive statements under Section 9—208;

(b) to receive notice of and to object to a secured party's proposal to retain the collateral in satisfaction of the indebtedness under Section 9—505;

(c) to redeem the collateral under Section 9—506;

(d) to obtain injunctive or other relief under Section 9—507(1); and

(e) to recover losses caused to him under Section 9—208(2).

Section 9—113. Security Interests Arising Under Article on Sales.

A security interest arising solely under the Article on Sales (Article 2) is subject to the provisions of this Article except that to the extent that and so long as the debtor does not have or does not lawfully obtain possession of the goods

(a) no security agreement is necessary to make the security interest enforceable; and

(b) no filing is required to perfect the security interest; and

(c) the rights of the secured party on default by the debtor are governed by the Article on Sales (Article 2).

## PART 2

### VALIDITY OF SECURITY AGREEMENT AND RIGHTS OF PARTIES THERETO

Section 9—201. General Validity of Security Agreement.

Except as otherwise provided by this Act a security agreement is effective according to its terms between the parties, against purchasers of the collateral and against creditors. Nothing in this Article validates any charge or practice illegal under any statute or regulation thereunder governing usury, small loans, retail installment sales, or the like, or extends the application of any such statute or regulation to any transaction not otherwise subject thereto.

Section 9—202. Title to Collateral Immaterial.

Each provision of this Article with regard to rights, obligations and remedies applies whether title to collateral is in the secured party or in the debtor.

Section 9—203. Enforceability of Security Interest; Proceeds, Formal Requisites.

(1) Subject to the provisions of Section 4—208 on the security interest of a collecting bank and Section

9—113 on a security interest arising under the Article on Sales, a security interest is not enforceable against the debtor or third parties unless

(a) the collateral is in the possession of the secured party; or

(b) the debtor has signed a security agreement which contains a description of the collateral and in addition, when the security interest covers crops or oil, gas or minerals to be extracted or timber to be cut, a description of the land concerned. In describing collateral, the word "proceeds" is sufficient without further description to cover proceeds of any character.

(2) A transaction, although subject to this Article, is also subject to the Texas Regulatory Loan Act, Texas Laws, 1963, Chap. 205, p. 550 (compiled as Vern. Tex. Civ. Stat. Ann., Art. 6156b), and in the case of conflict between the provisions of this Article and any such statute, the provisions of such statute control. Failure to comply with any applicable statute has only the effect which is specified therein.

Section 9—204. When Security Interest Attaches; After-Acquired Property; Future Advances.

(1) A security interest cannot attach until there is agreement (subsection (3) of Section 1—201) that it attach and value is given and the debtor has rights in the collateral. It attaches as soon as all of the events in the preceding sentence have taken place unless explicit agreement postpones the time of attaching.

(2) For the purposes of this section the debtor has no rights

(a) in crops until they are planted or otherwise become growing crops, in the young of livestock until they are conceived;

(b) in fish until caught, in oil, gas or minerals until they are extracted, in timber until it is cut;

(c) in a contract right until the contract has been made;

(d) in an account until it comes into existence.

(3) Except as provided in subsection (4) a security agreement may provide that collateral, whenever acquired, shall secure all obligations covered by the security agreement.

(4) No security interest attaches under an after-acquired property clause

(a) to crops which become such more than three years after the security agreement is executed except

that a security interest in crops which is given in conjunction with a lease or a land purchase or improvement transaction evidenced by a contract, mortgage or deed of trust may if so agreed attach to crops to be grown on the land concerned during the period of such real estate transaction;

(b) to consumer goods other than accessions (Section 9—314) when given as additional security unless the debtor acquires rights in them within ten days after the secured party gives value.

(5) Obligations covered by a security agreement may include future advances or other value whether or not the advances or value are given pursuant to commitment.

Section 9—205. Use or Disposition of Collateral Without Accounting Permissible.

A security interest is not invalid or fraudulent against creditors by reason of liberty in the debtor to use, commingle or dispose of all or part of the collateral (including returned or repossessed goods) or to collect or compromise accounts, contract rights or chattel paper, or to accept the return of goods or make repossessions, or to use, commingle or dispose of proceeds, or by reason of the failure of the secured party to require the debtor to account for proceeds or replace collateral. This section does not relax the requirements of possession where perfection of a security interest depends upon possession of the collateral by the secured party or by a bailee.

Section 9—206. Agreement Not to Assert Defenses Against Assignee; Modification of Sales Warranties Where Security Agreement Exists.

(1) Subject to any statute or decision which establishes a different rule for buyers or lessees of consumer goods, an agreement by a buyer or lessee that he will not assert against an assignee any claim or defense which he may have against the seller or lessor is enforceable by an assignee who takes his assignment for value, in good faith and without notice of a claim or defense, except as to defenses of a type which may be asserted against a holder in due course of a negotiable instrument under the Article on Commercial Paper (Article 3). A buyer who as part of one transaction signs both a negotiable instrument and a security agreement makes such an agreement.

(2) When a seller retains a purchase money security interest in goods the Article on Sales (Article 2) governs the sale and any disclaimer, limitation or modification of the seller's warranties.

**Section 9—207. Rights and Duties When Collateral Is in Secured Party's Possession.**

(1) A secured party must use reasonable care in the custody and preservation of collateral in his possession. In the case of an instrument or chattel paper reasonable care includes taking necessary steps to preserve rights against prior parties unless otherwise agreed.

(2) Unless otherwise agreed, when collateral is in the secured party's possession

(a) reasonable expenses (including the cost of any insurance and payment of taxes or other charges) incurred in the custody, preservation, use or operation of the collateral are chargeable to the debtor and are secured by the collateral;

(b) the risk of accidental loss or damage is on the debtor to the extent of any deficiency in any effective insurance coverage;

(c) the secured party may hold as additional security any increase or profits (except money) received from the collateral, but money so received, unless remitted to the debtor, shall be applied in reduction of the secured obligation;

(d) the secured party must keep the collateral identifiable but fungible collateral may be commingled;

(e) the secured party may repledge the collateral upon terms which do not impair the debtor's right to redeem it.

(3) A secured party is liable for any loss caused by his failure to meet any obligation imposed by the preceding subsections but does not lose his security interest.

(4) A secured party may use or operate the collateral for the purpose of preserving the collateral or its value or pursuant to the order of a court of appropriate jurisdiction or, except in the case of consumer goods, in the manner and to the extent provided in the security agreement.

**Section 9—208. Request for Statement of Account or List of Collateral.**

(1) A debtor may sign a statement indicating what he believes to be the aggregate amount of unpaid indebtedness as of a specified date and may send it to the secured party with a

request that the statement be approved or corrected and returned to the debtor. When the security agreement or any other record kept by the secured party identifies the collateral a debtor may similarly request the secured party to approve or correct a list of the collateral.

(2) The secured party must comply with such a request within two weeks after receipt by sending a written correction or approval. If the secured party claims a security interest in all of a particular type of collateral owned by the debtor he may indicate that fact in his reply and need not approve or correct an itemized list of such collateral. If the secured party without reasonable excuse fails to comply he is liable for any loss caused to the debtor thereby; and if the debtor has properly included in his request a good faith statement of the obligation or a list of the collateral or both the secured party may claim a security interest only as shown in the statement against persons misled by his failure to comply. If he no longer has an interest in the obligation or collateral at the time the request is received he must disclose the name and address of any successor in interest known to him and he is liable for any loss caused to the debtor as a result of failure to disclose. A successor in interest is not subject to this section until a request is received by him.

(3) A debtor is entitled to such a statement once every six months without charge. The secured party may require payment of a charge not exceeding \$10 for each additional statement furnished.

**PART 3**

**RIGHTS OF THIRD PARTIES;  
PERFECTED AND UNPERFECTED SECURITY INTERESTS;  
RULES OF PRIORITY**

**Section 9—301. Persons Who Take Priority Over Unperfected Security Interests; "Lien Creditor."**

(1) Except as otherwise provided in subsection (2), an unperfected security interest is subordinate to the rights of

(a) persons entitled to priority under Section 9—312;

(b) a person who becomes a lien creditor without knowledge of the security interests and before it is perfected;

(c) in the case of goods, instruments, documents, and chattel paper, a person who is not a secured party

and who is a transferee in bulk or other buyer not in ordinary course of business to the extent that he gives value and receives delivery of the collateral without knowledge of the security interest and before it is perfected;

(d) in the case of accounts, contract rights, and general intangibles, a person who is not a secured party and who is a transferee to the extent that he gives value without knowledge of the security interest and before it is perfected.

(2) If the secured party files with respect to a purchase money security interest before or within ten days after the collateral comes into possession of the debtor, he takes priority over the rights of a transferee in bulk or of a lien creditor which arise between the time the security interest attaches and the time of filing.

(3) A "lien creditor" means a creditor who has acquired a lien on the property involved by attachment, levy or the like and includes an assignee for benefit of creditors from the time of assignment, and a trustee in bankruptcy from the date of the filing of the petition or a receiver in equity from the time of appointment. Unless all the creditors represented had knowledge of the security interests such a representative of creditors as a lien creditor without knowledge even though he personally has knowledge of the security interest.

Section 9—302. When Filing Is Required to Perfect Security Interest; Security Interest to Which Filing Provisions of This Article Do Not Apply.

(1) A financing statement must be filed to perfect all security interests except the following:

(a) a security interest in collateral in possession of the secured party under Section 9—305;

(b) a security interest temporarily perfected in instruments or documents without delivery under Section 9—304 or in proceeds for a 10 day period under Section 9—306;

(c) a purchase money security interest in farm equipment having a purchase price not in excess of \$2,500; but filing is required for a fixture under Section 9—313 or for a motor vehicle required to be licensed;

(d) a purchase money security interest in consumer goods; but filing is required for a fixture under Section 9—313 or for a motor vehicle required to be licensed;

(e) an assignment of accounts or contract rights which does not alone or in conjunction with other assignments to the same assignee transfer a significant part of the outstanding accounts or contract rights of the assignor;

(f) a security interest of a collecting bank (Section 4—208) or arising under the Article on Sales (see Section 9—113) or covered in subsection (3) of this section.

(2) If a secured party, assigns a perfected security interest, no filing under this Article is required in order to continue the perfected status of the security interest against creditors of and transferees from the original debtor.

(3) The filing provisions of this Article do not apply to a security interest in property subject to a statute

(a) of the United States which provides for a national registration or filing of all security interests in such property; or

(b) of this state which provides for central filing of, or which requires indication on a certificate of title of, such security interests in such property.

(4) A security interest in property covered by a statute described in subsection (3) can be perfected only by registration or filing under that statute or by indication of the security interest on a certificate of title or a duplicate thereof by a public official.

(5) Where the debtor is a person engaged in this State in one or more of the following activities, a security interest granted by or on behalf of the debtor may be perfected by filing in the place and manner described in Acts 52nd Legislature, 1951, Chapter 195, as amended (compiled as Vernon's Texas Civil Statutes Anno. Art. 1438a):

(i) the generation, manufacture, transmission or distribution and sale of electric energy and power;

(ii) the transportation, distribution and sale through local distribution system of natural or other gas for domestic, commercial, industrial or any other use;

(iii) the ownership or operation of any pipeline for the transportation or sale of natural gas, crude oil or petroleum products to other pipeline companies, refineries, local distributing systems, municipalities or industrial consumers;

(iv) the provision of telephone or telegraph service to others;

(v) the production, transmission or distribution and sale of steam or water; and

(vi) the operation of a railroad.

Section 9—303. When Security Interest Is Perfected; Continuity of Perfection.

(1) A security interest is perfected when it has attached and when all of the applicable steps required for perfection have been taken. Such steps are specified in Sections 9—302, 9—304, 9—305 and 9—306. If such steps are taken before the security interest attaches, it is perfected at the time when it attaches.

(2) If a security interest is originally perfected in any way permitted under this Article and is subsequently perfected in some other way under this Article, without an intermediate period when it was unperfected, the security interest shall be deemed to be perfected continuously for the purposes of this Article.

Section 9—304. Perfection of Security Interest in Instruments, Documents and Goods Covered by Documents; Perfection by Permissive Filing; Temporary Perfection Without Filing or Transfer of Possession.

(1) A security interest in chattel paper or negotiable documents may be perfected by filing. A security interest in instruments (other than instruments which constitute part of chattel paper) can be perfected only by the secured party's taking possession, except as provided in subsections (4) and (5).

(2) During the period that goods are in the possession of the issuer of a negotiable document therefor, a security interest in the goods is perfected by perfecting a security interest in the document and any security interest in the goods otherwise perfected during such period is subject thereto.

(3) A security interest in goods in the possession of a bailee other than one who has issued a negotiable document therefor is perfected by issuance of a document in the name of the secured party or by the bailee's receipt of notification of the secured party's interest or by filing as to the goods.

(4) A security interest in instruments or negotiable documents is perfected without filing or the taking of possession for a period of 21 days from the time it attaches to the extent that it arises for new value given

under a written security agreement.

(5) A security interest remains perfected for a period of 21 days without filing where a secured party having a perfected security interest in an instrument, a negotiable document or goods in possession of a bailee other than one who has issued a negotiable document therefor

(a) makes available to the debtor the goods or documents representing the goods for the purpose of ultimate sale or exchange or for the purpose of loading, unloading, storing, shipping, transshipping, manufacturing, processing or otherwise dealing with them in a manner preliminary to their sale or exchange; or

(b) delivers the instrument to the debtor for the purpose of ultimate sale or exchange or of presentation, collection, renewal or registration of transfer.

(6) After the 21 day period in subsections (4) and (5) perfection depends upon compliance with applicable provisions of this Article.

Section 9—305. When Possession by Secured Party Perfects Security Interest Without Filing.

A security interest in letters of credit and advices of credit (subsection (2) (a) of Section 5—116), goods, instruments, negotiable documents or chattel paper may be perfected by the secured party's taking possession of the collateral. If such collateral other than goods covered by a negotiable document is held by a bailee, the secured party is deemed to have possession from the time the bailee receives notification of the secured party's interest. A security interest is perfected by possession from the time possession is taken without relation back and continues only so long as possession is retained, unless otherwise specified in this Article. The security interest may be otherwise perfected as provided in this Article before or after the period of possession by the secured party.

Section 9—306. "Proceeds"; Secured Party's Rights on Disposition of Collateral.

(1) "Proceeds" includes whatever is received when collateral or proceeds is sold, exchanged, collected or otherwise disposed of. The term also includes the account arising when the right to payment is earned under a contract right. Money, checks and the like are "cash proceeds." All other proceeds are "non-cash proceeds."

(2) Except where this Article otherwise provides, a security interest continues in collateral notwithstanding sale, exchange or other disposition thereof by the debtor unless his action was authorized by the secured party in the security agreement or otherwise, and also continues in any identifiable proceeds including collections received by the debtor.

(3) The security interest in proceeds is a continuously perfected security interest if the interest in the original collateral was perfected but it ceases to be a perfected security interest and becomes unperfected ten days after receipt of the proceeds by the debtor unless

(a) a filed financing statement covering the original collateral also covers proceeds; or

(b) the security interest in the proceeds is perfected before the expiration of the ten day period.

(4) In the event of insolvency proceedings instituted by or against a debtor, a secured party with a perfected security interest in proceeds has a perfected security interest

(a) in identifiable non-cash proceeds;

(b) in identifiable cash proceeds in the form of money which is not commingled with other money or deposited in a bank account prior to the insolvency proceedings;

(c) in identifiable cash proceeds in the form of checks and the like which are not deposited in a bank account prior to the insolvency proceedings; and

(d) in all cash and bank accounts of the debtor, if other cash proceeds have been commingled or deposited in a bank account, but the perfected security interest under this paragraph (d) is

(i) subject to any right of set-off; and

(ii) limited to an amount not greater than the amount of any cash proceeds received by the debtor within ten days before the institution of the insolvency proceedings and commingled or deposited in a bank account prior to the insolvency proceedings less the amount of cash proceeds received by the debtor and paid over to the secured party during the ten day period.

(5) If a sale of goods results in an account or chattel paper which is transferred by the seller to a secured party, and if the goods are returned to or are repossessed by the seller

or the secured party, the following rules determine priorities:

(a) If the goods were collateral at the time of sale for an indebtedness of the seller which is still unpaid, the original security interest attaches again to the goods and continues as a perfected security interest if it was perfected at the time when the goods were sold. If the security interest was originally perfected by a filing which is still effective, nothing further is required to continue the perfected status; in any other case, the secured party must take possession of the returned or repossessed goods or must file.

(b) An unpaid transferee of the chattel paper has a security interest in the goods against the transferor. Such security interest is prior to a security interest asserted under paragraph (a) to the extent that the transferee of the chattel paper was entitled to priority under Section 9—308.

(c) An unpaid transferee of the account has a security interest in the goods against the transferor. Such security interest is subordinate to a security interest asserted under paragraph (a).

(d) A security interest of an unpaid transferee asserted under paragraph (b) or (c) must be perfected for protection against creditors of the transferor and purchasers of the returned or repossessed goods.

Section 9—307. Protection of Buyers of Goods.

(1) A buyer in ordinary course of business (subsection (9) of Section 1—201) other than a person buying farm products from a person engaged in farming operations takes free of a security interest created by his seller even though the security interest is perfected and even though the buyer knows of its existence.

(2) In the case of consumer goods and in the case of farm equipment having an original purchase price not in excess of \$2500 (other than fixtures, see Section 9—313), a buyer takes free of a security interest even though perfected if he buys without knowledge of the security interest, for value and for his own personal, family or household purposes or his own farming operations unless prior to the purchase the secured party has filed a financing statement covering such goods.

Section 9—308. Purchase of Chat-



tel Paper and Non-Negotiable Instruments.

A purchaser of chattel paper or a non-negotiable instrument who gives new value and takes possession of it in the ordinary course of his business and without knowledge that the specific paper or instrument is subject to a security interest has priority over a security interest which is perfected under Section 9-304 (permissive filing and temporary perfection). A purchaser of chattel paper who gives new value and takes possession of it in the ordinary course of his business has priority over a security interest in chattel paper which is claimed merely as proceeds of inventory subject to a security interest (Section 9-306), even though he knows that the specific paper is subject to the security interest.

Section 9-309. Protection of Purchasers of Instruments and Documents.

Nothing in this Article limits the rights of a holder in due course of a negotiable instrument (Section 3-302) or a holder to whom a negotiable document of title has been duly negotiated (Section 7-501) or a bona fide purchaser of a security (Section 8-301) and such holders or purchasers take priority over an earlier security interest even though perfected. Filing under this Article does not constitute notice of the security interest to such holders or purchasers.

Section 9-310. Priority of Certain Liens Arising by Operation of Law.

When a person in the ordinary course of his business furnishes services or materials with respect to goods subject to a security interest, a lien upon goods in the possession of such person given by statute or rule of law for such materials or services takes priority over a perfected security interest unless the lien is statutory and the statute expressly provides otherwise.

Section 9-311. Alienability of Debtor's Rights: Judicial Process.

The debtor's rights in collateral may be voluntarily or involuntarily transferred (by way of sale, creation of a security interest, attachment, levy, garnishment or other judicial process) notwithstanding a provision in the security agreement prohibiting any transfer or making the transfer constitute a default.

Section 9-312. Priorities Among

Conflicting Security Interests in the Same Collateral.

(1) The rules of priority stated in the following sections shall govern where applicable: Section 4-208 with respect to the security interest of collecting banks in items being collected, accompanying documents and proceeds; Section 9-301 on certain priorities; Section 9-304 on goods covered by documents; Section 9-306 on proceeds and reposessions; Section 9-307 on buyers of goods; Section 9-308 on possessory against non-possessory interests in chattel paper or non-negotiable instruments; Section 9-309 on security interests in negotiable instruments, documents or securities; Section 9-310 on priorities between perfected security interests and liens by operation of law; Section 9-313 on security interests in fixtures as against interests in real estate; Section 9-314 on security interests in accessions as against interest in goods; Section 9-315 on conflicting security interests where goods lose their identity or become part of a product; and Section 9-316 on contractual subordination.

(2) A perfected security interest in crops for new value given to enable the debtor to produce the crops during the production season and given not more than three months before the crops become growing crops by planting or otherwise takes priority over an earlier perfected security interest to the extent that such earlier interest secures obligations due more than six months before the crops become growing crops by planting or otherwise, even though the person giving new value had knowledge of the earlier security interest.

(3) A purchase money security interest in inventory collateral has priority over a conflicting security interest in the same collateral if

(a) the purchase money security interest is perfected at the time the debtor receives possession of the collateral; and

(b) any secured party whose security interest is known to the holder of the purchase money security interest or who, prior to the date of the filing made by the holder of the purchase money security interest had filed a financing statement covering the same items or type of inventory, has received notification of the purchase money security interest.

before the debtor receives possession of the collateral covered by the purchase money security interest; and

(c) such notification states that the person giving the notice has or expects to acquire a purchase money security interest in inventory of the debtor, describing such inventory by item or type.

(4) A purchase money security interest in collateral other than inventory has priority over a conflicting security interest in the same collateral if the purchase money security interest is perfected at the time the debtor receives possession of the collateral or within ten days thereafter.

(5) In all cases not governed by other rules stated in this section (including cases of purchase money security interests which do not qualify for the special priorities set forth in subsections (3) and (4) of this section), priority between conflicting security interests in the same collateral shall be determined as follows:

(a) in the order of filing if both are perfected by filing, regardless of which security interest attached first under Section 9—204(1) and whether it attached before or after filing;

(b) in the order of perfection unless both are perfected by filing, regardless of which security interest attached first under Section 9—204(1) and, in the case of a filed security interest, whether it attached before or after filing; and

(c) in the order of attachment under Section 9—204(1) so long as neither is perfected.

(6) For the purpose of the priority rules of the immediately preceding subsection, a continuously perfected security interest shall be treated at all times as if perfected by filing if it was originally so perfected and it shall be treated at all times as if perfected otherwise than by filing if it was originally perfected otherwise than by filing.

Section 9—313. Priority of Security Interests in Fixtures.

(1) The rules of this section do not apply to goods incorporated into a structure in the manner of lumber, bricks, tile, cement, glass, metal work and the like and no security interest in them exists under this Article unless the structure remains personal property under applicable law. The law of this state other than this Act determines whether and when other goods become fixtures. This Act does not prevent creation of an en-

cumbrance upon fixtures or real estate pursuant to the law applicable to real estate.

(2) A security interest which attaches to goods before they become fixtures takes priority as to the goods over the claims of all persons who have an interest in the real estate except as stated in subsection (4).

(3) A security interest which attaches to goods after they become fixtures is valid against all persons subsequently acquiring interests in the real estate except as stated in subsection (4) but is invalid against any person with an interest in the real estate at the time the security interest attaches to the goods who has not in writing consented to the security interest or disclaimed an interest in the goods as fixtures.

(4) The security interests described in subsections (2) and (3) do not take priority over

(a) a subsequent purchaser for value of any interest in the real estate; or

(b) a creditor with a lien on the real estate subsequently obtained by judicial proceedings; or

(c) a creditor with a prior encumbrance of record on the real estate to the extent that he makes subsequent advances

if the subsequent purchase is made, the lien by judicial proceedings is obtained, or the subsequent advance under the prior encumbrance is made or contracted for without knowledge of the security interest and before it is perfected. A purchaser of the real estate at a foreclosure sale other than an encumbrancer purchasing at his own foreclosure sale is a subsequent purchaser within this section.

(5) When under subsections (2) or (3) and (4) a secured party has priority over the claims of all persons who have interests in the real estate, he may, on default, subject to the provisions of Part 5, remove his collateral from the real estate but he must reimburse any encumbrancer or owner of the real estate who is not the debtor and who has not otherwise agreed for the cost of repair of any physical injury, but not for any diminution in value of the real estate caused by the absence of the goods removed or by any necessity for replacing them. A person entitled to reimbursement may refuse permission to remove until the secured party gives adequate security for the performance of this obligation.

## Section 9—314. Accessions.

(1) A security interest in goods which attaches before they are installed in or affixed to other goods takes priority as to the goods installed or affixed (called in this section "accessions") over the claims of all persons to the whole except as stated in subsection (3) and subject to Section 9—315(1).

(2) A security interest which attaches to goods after they become part of a whole is valid against all persons subsequently acquiring interests in the whole except as stated in subsection (3) but is invalid against any person with an interest in the whole at the time the security interest attaches to the goods who has not in writing consented to the security interest or disclaimed an interest in the goods as part of the whole.

(3) The security interests described in subsections (1) and (2) do not take priority over

(a) a subsequent purchaser for value of any interest in the whole; or

(b) a creditor with a lien on the whole subsequently obtained by judicial proceedings; or

(c) a creditor with a prior perfected security interest in the whole to the extent that he makes subsequent advances

if the subsequent purchase is made, the lien by judicial proceedings obtained or the subsequent advance under the prior perfected security interest is made or contracted for without knowledge of the security interest and before it is perfected. A purchaser of the whole at a foreclosure sale other than the holder of a perfected security interest purchasing at his own foreclosure sale is a subsequent purchaser within this section.

(4) When under subsections (1) or (2) and (3) a secured party has an interest in accessions which has priority over the claims of all persons who have interests in the whole, he may on default subject to the provisions of Part 5 remove his collateral from the whole but he must reimburse any encumbrancer or owner of the whole who is not the debtor and who has not otherwise agreed for the cost of repair of any physical injury but not for any diminution in value of the whole caused by the absence of the goods removed or by any necessity for replacing them. A

person entitled to reimbursement may refuse permission to remove until the secured party gives adequate security for the performance of this obligation.

## Section 9—315. Priority When Goods Are Commingled or Processed.

(1) If a security interest in goods was perfected and subsequently the goods or a part thereof have become part of a product or mass, the security interest continues in the product or mass if

(a) the goods are so manufactured, processed, assembled or commingled that their identity is lost in the product or mass; or

(b) a financing statement covering the original goods also covers the product into which the goods have been manufactured, processed or assembled.

In a case to which paragraph (b) applies, no separate security interest in that part of the original goods which has been manufactured, processed or assembled into the product may be claimed under Section 9—314.

(2) When under subsection (1) more than one security interest attaches to the product or mass, they rank equally according to the ratio that the cost of the goods to which each interest originally attached bears to the cost of the total product or mass.

## Section 9—316. Priority Subject to Subordination.

Nothing in this Article prevents subordination by agreement by any person entitled to priority.

## Section 9—317. Secured Party Not Obligated on Contract of Debtor.

The mere existence of a security interest or authority given to the debtor to dispose of or use collateral does not impose contract or tort liability upon the secured party for the debtor's acts or omissions.

## Section 9—318. Defenses Against Assignee; Modification of Contract After Notification of Assignment; Term Prohibiting Assignment Ineffective; Identification and Proof of Assignment.

(1) Unless an account debtor has made an enforceable agreement not to assert defenses or claims arising out of a sale as provided in Section 9—206 the rights of an assignee are subject to

(a) all the terms of the contract between the account debtor and as-

signor and any defense or claim arising therefrom; and

(b) any other defense or claim of the account debtor against the assignor which accrues before the account debtor receives notification of the assignment.

(2) So far as the right to payment under an assigned contract right has not already become an account, and notwithstanding notification of the assignment, any modification of or substitution for the contract made in good faith and in accordance with reasonable commercial standards is effective against an assignee unless the account debtor has otherwise agreed but the assignee acquires corresponding rights under the modified or substituted contract. The assignment may provide that such modification or substitution is a breach by the assignor.

(3) The account debtor is authorized to pay the assignor until the account debtor receives notification that the account has been assigned and that payment is to be made to the assignee. A notification which does not reasonably identify the rights assigned is ineffective. If requested by the account debtor, the assignee must seasonably furnish reasonable proof that the assignment has been made and unless he does so the account debtor may pay the assignor.

(4) A term in any contract between an account debtor and an assignor which prohibits assignment of an account or contract right to which they are parties is ineffective.

#### PART 4 FILING

Section 9—401. Place of Filing; Erroneous Filing; Removal of Collateral.

(1) The proper place to file in order to perfect a security interest is as follows:

(a) When the collateral is equipment used in farming operations, or farm products, or accounts, contract rights or general intangibles arising from or relating to the sale of farm products by a farmer, or consumer goods, then in the office of the County Clerk in the county of the debtor's residence or if the debtor is not a resident of this state then in the office of the County Clerk in the county where the goods are kept, and in addition when the collateral is crops in the office of the County Clerk in the county where the land on which

the crops are growing or to be grown is located;

(b) when the collateral is goods which at the time the security interest attaches are or are to become fixtures, then in the office where a mortgage on the real estate concerned would be filed or recorded;

(c) in all other cases, in the office of the Secretary of State.

(2) A filing which is made in good faith in an improper place or not in all of the places required by this section is nevertheless effective with regard to any collateral as to which the filing complied with the requirements of this Article and is also effective with regard to collateral covered by the financing statement against any person who has knowledge of the contents of such financing statement.

(3) A filing which is made in the proper county continues effective for four months after a change to another county of the debtor's residence or place of business or the location of the collateral, whichever controlled the original filing. It becomes ineffective thereafter unless a copy of the financing statement signed by the secured party is filed in the new county within said period. The security interest may also be perfected in the new county after the expiration of the four-month period; in such case perfection dates from the time of perfection in the new county. A change in the use of the collateral does not impair the effectiveness of the original filing.

(4) If collateral is brought into this state from another jurisdiction, the rules stated in Section 9—103 determine whether filing is necessary in this state.

Section 9—402. Formal Requisites of Financing Statement; Amendments.

(1) A financing statement is sufficient if it is signed by the debtor and the secured party, gives an address of the secured party from which information concerning the security interest may be obtained, gives a mailing address of the debtor and contains a statement indicating the types, or describing the items, of collateral. A financing statement may be filed before a security agreement is made or a security interest otherwise attaches. When the financing statement covers crops growing or to be grown or goods which are or are to become fixtures, the statement

must also contain a description of the real estate concerned. A copy of the security agreement is sufficient as a financing statement if it contains the above information and is signed by both parties.

(2) A financing statement which otherwise complies with subsection (1) is sufficient although it is signed only by the secured party when it is filed to perfect a security interest in

(a) collateral already subject to a security interest in another jurisdiction when it is brought into this state. Such a financing statement must state that the collateral was brought into this state under such circumstances.

(b) proceeds under Section 9—306 if the security interest in the original collateral was perfected. Such a financing statement must describe the original collateral.

(3) A form substantially as follows is sufficient to comply with subsection (1):

Name of debtor (or assignor) .....

Address .....

Name of secured party (or assignee) .....

Address .....

1. This financing statement covers the following types (or items) of property: (Describe) .....
2. (If collateral is crops) The above described crops are growing or are to be grown on: (Describe Real Estate) .....
3. (If collateral is goods which are or are to become fixtures) The above described goods are affixed or to be affixed to: (Describe Real Estate) .....
4. (If proceeds or products of collateral are claimed) Proceeds—Products of the collateral are also covered.

Signature of Debtor

(or Assignor) .....

Signature of Secured

Party (or Assignee) .....

(4) The term "financing statement" as used in this Article means the original financing statement and any amendments but if any amendment adds collateral, it is effective as to the added collateral only from the filing date of the amendment.

(5) A financing statement substantially complying with the requirements of this section is effective even

though it contains minor errors which are not seriously misleading.

Section 9—403. What Constitutes Filing; Duration of Filing; Effect of Lapsed Filing; Duties of Filing Officer.

(1) Presentation for filing of a financing statement and tender of the filing fee or acceptance of the statement by the filing officer constitutes filing under this Article.

(2) A filed financing statement which states a maturity date of the obligation secured of five years or less is effective until such maturity date and thereafter for a period for sixty days. Any other filed financing statement is effective for a period of five years from the date of filing. The effectiveness of a filed financing statement lapses on the expiration of such sixty day period after a stated maturity date or on the expiration of such five year period, as the case may be, unless a continuation statement is filed prior to the lapse. Upon such lapse the security interest becomes unperfected. A filed financing statement which states that the obligation secured is payable on demand is effective for five years from the date of filing.

(3) A continuation statement may be filed by the secured party (i) within six months before and sixty days after a stated maturity date of five years or less, and (ii) otherwise within six months prior to the expiration of the five year period specified in subsection (2). Any such continuation statement must be signed by the secured party, identify the original statement by file number and state that the original statement is still effective. Upon timely filing of the continuation statement, the effectiveness of the original statement is continued for five years after the last date to which the filing was effective whereupon it lapses in the same manner as provided in subsection (2) unless another continuation statement is filed prior to such lapse. Succeeding continuation statements may be filed in the same manner to continue the effectiveness of the original statement. Unless a statute on disposition of public records provides otherwise, the filing officer may remove a lapsed statement from the files and destroy it.

(4) A filing officer shall mark each statement with a consecutive file number and with the date and hour of filing and shall hold the statement

for public inspection. In addition the filing officer shall index the statements according to the name of the debtor and shall note in the index the file number and the address of the debtor given in the statement.

(5) The uniform fee for filing, indexing and furnishing filing data for an original or a continuation statement shall be \$1.00.

#### Section 9—404. Termination Statement.

(1) Whenever there is no outstanding secured obligation and no commitment to make advances, incur obligations or otherwise give value, the secured party must on written demand by the debtor send the debtor a statement that he no longer claims a security interest under the financing statement, which shall be identified by file number. A termination statement signed by a person other than the secured party of record must include or be accompanied by the assignment or a statement by the secured party of record that he has assigned the security interest to the signer of the termination statement. The uniform fee for filing and indexing such an assignment or statement thereof shall be \$0.75. If the affected secured party fails to send such a termination statement within ten days after proper demand therefor he shall be liable to the debtor for one hundred dollars, and in addition for any loss caused to the debtor by such failure.

(2) On presentation to the filing officer of such a termination statement he must note it in the index. The filing officer shall remove from the files, mark "terminated" and send or deliver to the secured party the financing statement and any continuation statement, statement of assignment or statement of release pertaining thereto.

(3) The uniform fee for filing and indexing a termination statement including sending or delivering the financing statement shall be \$1.00.

#### Section 9—405. Assignment of Security Interest; Duties of Filing Officer; Fees.

(1) A financing statement may disclose an assignment of a security interest in the collateral described in the statement by indication in the statement of the name and address of the assignee or by an assignment itself or a copy thereof on the face or back of the statement. Either the original secured party or the assignee

may sign this statement as the secured party. On presentation to the filing officer of such a financing statement the filing officer shall mark the same as provided in Section 9—403 (4). The uniform fee for filing, indexing and furnishing filing data for a financing statement so indicated an assignment shall be \$1.50.

(2) A secured party may assign of record all or a part of his rights under a financing statement by the filing of a separate written statement of assignment signed by the secured party of record and setting forth the name of the secured party of record and the debtor, the file number and the date of filing of the financing statement and the name and address of the assignee and containing a description of the collateral assigned. A copy of the assignment is sufficient as a separate statement if it complies with the preceding sentence. On presentation to the filing officer of such a separate statement, the filing officer shall mark such separate statement with the date and hour of the filing. He shall note the assignment on the index of the financing statement. The uniform fee for filing, indexing and furnishing filing data about such a separate statement of assignment shall be \$1.00.

(3) After the disclosure or filing of an assignment under this section, the assignee is the secured party of record.

#### Section 9—406. Release of Collateral; Duties of Filing Officer; Fees.

A secured party of record may by his signed statement release all or a part of any collateral described in a filed financing statement. The statement of release is sufficient if it contains a description of the collateral being released, the name and address of the debtor, the name and address of the secured party, and the file number of the financing statement. Upon presentation of such a statement to the filing officer he shall mark the statement with the hour and date of filing and shall note the same upon the margin of the index of the filing of the financing statement. The uniform fee for filing and noting such a statement of release shall be \$1.00.

#### Section 9—407. Information from Filing Officer.

(1) If the person filing any financing statement, termination statement, statement of assignment, or state-

ment of release, furnishes the filing officer a copy thereof, the filing officer shall upon request note upon the copy the file number and date and hour of the filing of the original and deliver or send the copy to such person.

(2) Upon request of any person, the filing officer shall issue his certificate showing whether there is on file on the date and hour stated therein, any presently effective financing statement naming a particular debtor and any statement of assignment thereof and if there is, giving the date and hour of filing of each such statement and the names and addresses of each secured party therein. The uniform fee for such a certificate shall be \$1.00 plus \$1.00 for each financing statement and for each statement of assignment reported therein. Upon request the filing officer shall furnish a copy of any filed financing statement or statement of assignment for a uniform fee of \$1.00 per page.

Section 9—408. Prescribed Forms: Appropriation of Fees to Secretary of State.

(1) The Secretary of State may prescribe the forms to be used in making any filing or in requesting any information of the filing officer under this Article. Where the Secretary of State has prescribed the form and a person fails to use this form, the fee shall be twice that specified in the preceding sections.

(2) The filing and other fees paid to the Secretary of State under this Article shall be deposited in the General Revenue Fund of the State Treasury. For the administration of Act's provisions respecting the Secretary of State, there is hereby appropriated from the General Revenue Fund to the Secretary of State the amount of \$15,150 for personal services, consumable supplies and materials, current and recurring operating expense and capital outlay for the fiscal year ending August 31, 1966; and \$20,880 for those same purposes for the fiscal year ending August 31, 1967.

## PART 5 DEFAULT

Section 9—501. Default; Procedure When Security Agreement Covers Both Real and Personal Property.

(1) When a debtor is in default under a security agreement, a secured party has the rights and remedies provided in this Part and except as limited by subsection (3) those provided in the security agreement. He may reduce his claim to judgment, foreclose or otherwise enforce the security interest by any available judicial procedure. If the collateral is documents the secured party may proceed either as to the documents or as to the goods covered thereby. A secured party in possession has the rights, remedies and duties provided in Section 9—207. The rights and remedies referred to in this subsection are cumulative.

(2) After default, the debtor has the rights and remedies provided in this Part, those provided in the security agreement and those provided in Section 9—207.

(3) To the extent that they give rights to the debtor and impose duties on the secured party, the rules stated in the subsections referred to below may not be waived or varied except as provided with respect to compulsory disposition of collateral (subsection (1) of Section 9—505) and with respect to redemption of collateral (Section 9—506) but the parties may by agreement determine the standards by which the fulfillment of these rights and duties is to be measured if such standards are not manifestly unreasonable:

(a) subsection (2) of Section 9—502 and subsection (2) of Section 9—504 insofar as they require accounting for surplus proceeds of collateral;

(b) subsection (3) of Section 9—504 and subsection (1) of Section 9—505 which deal with disposition of collateral;

(c) subsection (2) of Section 9—505 which deals with acceptance of collateral as discharge of obligation;

(d) Section 9—506 which deals with redemption of collateral; and

(e) subsection (1) of Section 9—507 which deals with the secured party's liability for failure to comply with this Part.

(4) If the security agreement covers both real and personal property, the secured party may proceed under this Part as to the personal property or he may proceed as to both the real and the personal property in accordance with his rights and remedies in respect of the real property in which case the provisions of this Part do not apply.

(5) When a secured party has reduced his claim to judgment the lien of any levy which may be made upon his collateral by virtue of any execution based upon the judgment shall relate back to the date of the perfection of the security interest in such collateral. A judicial sale, pursuant to such execution, is a foreclosure of the security interest by judicial procedure within the meaning of this section, and the secured party may purchase at the sale and thereafter hold the collateral free of any other requirements of this Article.

**Section 9—502. Collection Rights of Secured Party.**

(1) When so agreed and in any event on default the secured party is entitled to notify an account debtor or the obligor on an instrument to make payment to him whether or not the assignor was theretofore making collections on the collateral, and also to take control of any proceeds to which he is entitled under Section 9—306.

(2) A secured party who by agreement is entitled to charge back uncollected collateral or otherwise to full or limited recourse against the debtor and who undertakes to collect from the account debtors or obligors must proceed in a commercially reasonable manner and may deduct his reasonable expenses of realization from the collections. If the security agreement secures an indebtedness, the secured party must account to the debtor for any surplus, and unless otherwise agreed, the debtor is liable for any deficiency. But, if the underlying transaction was a sale of accounts, contract rights, or chattel paper, the debtor is entitled to any surplus or is liable for any deficiency only if the security agreement so provides.

**Section 9—503. Secured Party's Right to Take Possession After Default.**

Unless otherwise agreed a secured party has on default the right to take possession of the collateral. In taking possession a secured party may proceed without judicial process if this can be done without breach of the peace or may proceed by action. If the security agreement so provides the secured party may require the debtor to assemble the collateral and make it available to the secured party at a place to be desig-

nated by the secured party which is reasonably convenient to both parties. Without removal, a secured party may render equipment unusable, and may dispose of collateral on the debtor's premises under Section 9—504.

**Section 9—504. Secured Party's Right to Dispose of Collateral After Default; Effect of Disposition.**

(1) A secured party after default may sell, lease or otherwise dispose of any or all of the collateral in its then condition or following any commercially reasonable preparation or processing. Any sale of goods is subject to the Article on Sales (Article 2). The proceeds of disposition shall be applied in the order following to

(a) the reasonable expenses of retaking, holding, preparing for sale, selling and the like and, to the extent provided for in the agreement and not prohibited by law, the reasonable attorneys' fees and legal expenses incurred by the secured party;

(b) the satisfaction of indebtedness secured by the security interest under which the disposition is made;

(c) the satisfaction of indebtedness secured by any subordinate security interest in the collateral if written notification of demand therefor is received before distribution of the proceeds is completed. If requested by the secured party, the holder of a subordinate security interest must seasonably furnish reasonable proof of his interest, and unless he does so, the secured party need not comply with his demand.

(2) If the security interest secures an indebtedness, the secured party must account to the debtor for any surplus, and, unless otherwise agreed, the debtor is liable for any deficiency. But if the underlying transaction was a sale of accounts, contract rights, or chattel paper, the debtor is entitled to any surplus or is liable for any deficiency only if the security agreement so provides.

(3) Disposition of the collateral may be by public or private proceedings and may be made by way of one or more contracts. Sale or other disposition may be as a unit or in parcels and at any time and place and on any terms but every aspect of the disposition including the method, manner, time, place and terms must be commercially reasonable. Unless collateral is perishable or threatens to decline speedily in value or is of a type customarily sold on a



recognized market, reasonable notification of the time and place of any public sale or reasonable notification of the time after which any private sale or other intended disposition is to be made shall be sent by the secured party to the debtor, and except in the case of consumer goods to any other person who has a security interest in the collateral and who has duly filed a financing statement indexed in the name of the debtor in this state or who is known by the secured party to have a security interest in the collateral. The secured party may buy at any public sale and if the collateral is of a type customarily sold in a recognized market or is of a type which is the subject of widely distributed standard price quotations he may buy at private sale.

(4) When collateral is disposed of by a secured party after default, the disposition transfers to a purchaser for value all of the debtor's rights therein, discharges the security interest under which it is made and any security interest or lien subordinate thereto. The purchaser takes free of all such rights and interests even though the secured party fails to comply with the requirements of this Part or of any judicial proceedings

(a) in the case of a public sale, if the purchaser has no knowledge of any defects in the sale and if he does not buy in collusion with the secured party, other bidders or the person conducting the sale; or

(b) in any other case, if the purchaser acts in good faith.

(5) A person who is liable to a secured party under a guaranty, indorsement, repurchaser agreement or the like and who receives a transfer of collateral from the secured party or is subrogated to his rights has thereafter the rights and duties of the secured party. Such a transfer of collateral is not a sale or disposition of the collateral under this Article.

Section 9—505. Compulsory Disposition of Collateral; Acceptance of the Collateral as Discharge of Obligation.

(1) If the debtor has paid sixty per cent of the cash price in the case of a purchase money security interest in consumer goods or sixty per cent of the loan in the case of another security interest in consumer goods, and has not signed after default a statement renouncing or

modifying his rights under this Part a secured party who has taken possession of collateral must dispose of it under Section 9—504 and if he fails to do so within ninety days after he takes possession the debtor at his option may recover in conversion or under Section 9—507(1) on secured party's liability.

(2) In any other case involving consumer goods or any other collateral a secured party in possession may, after default, propose to retain the collateral in satisfaction of the obligation. Written notice of such proposal shall be sent to the debtor and except in the case of consumer goods to any other secured party who has a security interest in the collateral and who has duly filed a financing statement indexed in the name of the debtor in this state or is known by the secured party in possession to have a security interest in it. If the debtor or other person entitled to receive notification objects in writing within thirty days from the receipt of the notification or if any other secured party objects in writing within thirty days after the secured party obtains possession the secured party must dispose of the collateral under Section 9—504. In the absence of such written objection the secured party may retain the collateral in satisfaction of the debtor's obligation.

Section 9—506. Debtor's Right to Redeem Collateral.

At any time before the secured party has disposed of collateral or entered into a contract for its disposition under Section 9—504 or before the obligation has been discharged under Section 9—505(2) the debtor or any other secured party may unless otherwise agreed in writing after default redeem the collateral by tendering fulfillment of all obligations secured by the collateral as well as the expenses reasonably incurred by the secured party in retaking, holding and preparing the collateral for disposition, in arranging for the sale, and to the extent provided in the agreement and not prohibited by law, his reasonable attorneys' fees and legal expenses.

Section 9—507. Secured Party's Liability for Failure to Comply With This Part.

(1) If it is established that the secured party is not proceeding in accordance with the provisions of this Part disposition may be ordered or

restrained on appropriate terms and conditions. If the disposition has occurred the debtor or any person entitled to notification or whose security interest has been made known to the secured party prior to the disposition has a right to recover from the secured party any loss caused by a failure to comply with the provisions of this Part. If the collateral is consumer goods, the debtor has a right to recover in any event an amount not less than the credit service charge plus ten per cent of the principal amount of the debt or the time price differential plus ten per cent of the cash price.

(2) The fact that a better price could have been obtained by a sale at a different time or in a different method from that selected by the secured party is not of itself sufficient to establish that the sale was not made in a commercially reasonable manner. If the secured party either sells the collateral in the usual manner in any recognized market therefor or if he sells at the price current in such market at the time of his sale or if he has otherwise sold in conformity with reasonable commercial practices among dealers in the type of property sold he has sold in a commercially reasonable manner. The principles stated in the two preceding sentences with respect to sales also apply as may be appropriate to other types of disposition. A disposition which has been approved in any judicial proceeding or by any bona fide creditors' committee or representative of creditors shall conclusively be deemed to be commercially reasonable, but this sentence does not indicate that any such approval must be obtained in any case nor does it indicate that any disposition not so approved is not commercially reasonable.

#### ARTICLE 10 EFFECTIVE DATE AND REPEALER

##### Section 10—101. Effective Date.

This Act shall become effective at midnight on June 30, 1966. It applies to transactions entered into and events occurring after that date.

##### Section 10—102. Specific Repealer; Provision for Transition.

(1) The following acts and all other acts and parts of acts inconsistent herewith are hereby repealed:

Tex. Rev. Civ. Stat. arts 5932-48

(1925), as amended by Tex. Sess. Laws 1961, ch. 109.

Tex. Rev. Civ. Stat. art. 567 (1925), as amended by Tex. Sess. Laws 1935, ch. 269.

Tex. Rev. Civ. Stat. arts 568-571, 575, 576 (1925).

Tex. Sess. Laws 1943, ch. 97, chap. VII, arts. 1-6, 11, 12, as amended Tex. Sess. Laws 1957, ch. 434 (compiled as Vern. Tex. Civ. Stat. Ann. arts 342-701-706; and arts. 342-711 and 342-712).

Tex. Rev. Civ. Stat. art 4000 (1925), as amended Tex. Sess. Laws 1949, ch. 82 and Tex. Sess. Laws 1935, ch. 115.

Tex. Rev. Civ. Stat. arts. 4001-08 (1925), as amended by Tex. Sess. Laws 1961, ch. 328.

Tex. Rev. Civ. Stat. arts. 890-98 (1925).

Tex. Rev. Civ. Stat. arts. 5612-65 (1925).

Tex. Rev. Civ. Stat. arts. 5575-76 (1925).

Tex. Rev. Civ. Stat. arts. 5604-07, 5609.

Tex. Sess. Laws 1961, ch. 205, arts. 6.01-24; (compiled as Vern. Tex. Civ. Stat. Ann. arts. 1802-6.01—1802-6.24).

Tex. Sess. Laws 1959, ch. 303 (compiled as Vern. Tex. Civ. Stat. Ann. art. 5499a-51).

Tex. Rev. Civ. Stat. arts. 5489-99 (1925), as amended and supplemented by Tex. Sess. Laws 1947, ch. 261; Tex. Sess. Laws 1933, ch. 117; Tex. Sess. Laws 1953, ch. 291.

Tex. Sess. Laws 1945, ch. 463, as amended by Tex. Sess. Laws 1955, ch. 305; Tex. Sess. Laws 1957, ch. 348; (compiled as Vern. Tex. Civ. Stat. Ann. arts. 260-1).

Tex. Sess. Laws 1947, ch. 180, as amended by Tex. Sess. Laws 1955, ch. 173; (compiled as Vern. Tex. Civ. Stat. Ann. art. 5506c).

(2) Transactions validly entered into before the effective date specified in Section 10—101 and the rights, duties and interests flowing from them remain valid thereafter and may be terminated, completed, consummated or enforced as required or permitted by any statute or other law amended or repealed by this Act as though such repeal or amendment had not occurred.

##### Section 10—103. General Repealer.

Except as provided in the following section, all acts and parts of acts inconsistent with this Act are hereby repealed.

Section 10—104. Laws Not Repealed.

(1) The Article on Documents of Title (Article 7) does not repeal or modify any laws prescribing the form or contents of documents of title or the services or facilities to be afforded by bailees, or otherwise regulating bailees' businesses in respects not specifically dealt with herein; but the fact that such laws are violated does not affect the status of a document of title which otherwise complies with the definition of a document of title (Section 1—201).

(2) This Act does not repeal Tex. Rev. Civ. Stat. Ann. art. 582-1, cited as the Uniform Act for the Simplification of Fiduciary Security Transfers, and if in any respect there is any inconsistency between that Act and the Article of this Act on investment securities (Article 8) the provisions of the former Act shall control.

(3) This Act does not repeal nor diminish Chapter 269, Acts 55th Legislature, 1957, as amended (compiled as Vernon's Texas Civil Statutes Annotated, Article 581, and known as The Texas Securities Act). If in any respect there is any inconsistency between that Act and this Act the provisions of the former Act control.

(4) Acts 52nd Legislature, 1951, Chapter 195, is amended to read as follows:

"Section 1. APPLICATION OF LAW. The provisions of this Act apply to mortgages, deeds of trust and other security instruments and agreements executed by and to secure the payment of bonds, notes, or other obligations of any persons (See Section 1—201), engaged in this State in one or more of the following activities:

(a) the generation, manufacture, transmission or distribution and sale of electric energy and power;

(b) the transportation, distribution and sale through local distribution system of natural or other gas for domestic, commercial, industrial or any other use;

(c) the ownership or operation of any pipeline for the transportation or sale of natural gas, crude oil or petroleum products to other pipeline companies, refineries, local distributing systems, municipalities or industrial consumers;

(d) the provision of telephone or telegraph service to others; and

(e) the production, transmission or distribution and sale of steam or water; and

(f) the operation of a railroad.

"Section 2. Filing Requirements. Any mortgage, deed of trust or other security instruments or agreement executed by any person described in Section 1 which by its terms subjects to the lien thereof property then owned or property to be acquired by the person subsequent to the execution by it of the security instrument, or agreement, or both kinds of property, upon the deposit thereof for record in the office of the county clerk of any county and payment of the statutory recording fees constitutes notice of the lien as to the property situated in that county and described in the instrument or agreement and upon compliance with the provisions of Section 3 of this Act also constitutes notice of the lien as to the property in that county acquired by the person subsequent to the execution and deposit for record in the county of the security instrument or agreement. The county clerk shall maintain a separate index with respect to the liens upon property concerning which notice is given by complying with this Act.

"Section 3. After-Acquired Property Clause. Any security instrument or agreement described in Section 2 which grants a lien upon after-acquired property constitutes notice of the lien thereof as to any property acquired by the person subsequent to the execution of the security instrument or agreement upon the deposit for record in the office of the county clerk of

(a) the mortgage, deed of trust, or other security instrument or agreement; and

(b) an affidavit of the president, vice president, treasurer or secretary of the person which executed the security instrument or agreement setting forth that the person which executed the security instrument or agreement is one of the persons described in Section 1, which affidavit shall follow immediately after the signatures and acknowledgement of those executing the security instrument or agreement.

Each security instrument or agreement of the class to which the provisions of this section apply shall have typed or printed conspicuously on the title page the following: 'This Instrument Contains After-acquired Property Provisions.'

"Section 4. Change of Mortgagor's Corporate Name. Any person described in Section 1 which has executed a security instrument or agreement within the terms of this Act which, subsequent to the execution and deposit for record of the security instrument or agreement, changes its name or merges or consolidates with another person, shall promptly deposit for record in the office of the county clerk in each county in which is situated property of the person an affidavit or other evidence of the change of name, merger or consolidation, setting forth the name of the person after the change, merger or consolidation. Until the affidavit or other evidence of change of name, merger or consolidation is deposited as required, the security instrument or agreement deposited for record does not constitute notice as to property acquired by the person succeeding the original mortgagor.

"Section 5. Duration of Recordation as Notice. With respect to a lien granted upon goods which are fixtures or are to become fixtures and upon personal property (See Section 9-102(1)) which is granted by a security instrument or agreement falling within the terms of this Act, a security instrument or agreement deposited for record in accordance with this Act is effective as notice of the lien for ten years from the date of the deposit for record. Within six months prior to the expiration of this ten-year period, the mortgagee or mortgagor may deposit for record a continuation statement. The continuation statement must be signed by the mortgagee or mortgagor, identify the security instrument or agreement and any supplements by file number or by recording data and state that the security instrument or agreement, as supplemented, is still effective. Upon a timely filing for record of the continuation statement with the county clerk in the county in which property upon which a lien is claimed or sought is situated, the effectiveness of the security instrument or agreement, as supplemented, is continued for ten years after the last date to which the recordation was effective whereupon it again lapses unless another continuation statement is filed for record prior to the lapse. However, any lien upon goods which are fixtures or are to become fixtures and upon personal property which was perfected by complying with the provisions before July 1, 1967 shall

remain perfected until July 1, 1977, without depositing for record the continuation statement described in this section. To continue such a lien beyond July 1, 1977, a continuation statement must be deposited in accordance with this section by July 1, 1977.

"Section 6. Act Cumulative. The provisions of this Act are cumulative of other laws concerning the executive, filing and recording of mortgages, deeds of trust and other security instruments or agreements. No lien perfected by the filing or recording of the security instrument or agreement prior to the effective date of this Act is impaired, invalidated or otherwise affected by any provision of this Act."

Section 10—105. Emergency Clause. Because a majority of the states in this nation, including all major commercial states and three of the states which border this State, have adopted laws substantially similar to this Act and uniformity with these states in the commercial law of this State, as well as certainty and clarity in many areas which are now unclear, are essential to the commercial life of this State, an imperative public necessity and an emergency exists, due to which the Constitutional Rule requiring bills to be read on three several days in each house is hereby suspended.

The Conference Committee Report was read and was adopted by the following vote:

#### Yeas—25

Aikin	Kazen
Bates	Kennard
Blanchard	Krueger
Calhoun	Moore
Colson	Parkhouse
Creighton	Reagan
Crump	Richter
Hall	Schwartz
Hardeman	Snelson
Harrington	Spears
Hazlewood	Strong
Herring	Word
Hightower	

#### Nays—5

Cole	Ratliff
Dies	Rogers
Patman	

#### Absent—Excused

Watson

**Senate Resolution 713**

Senator Bates offered the following resolution:

Whereas, Senator Criss Cole of Harris County, who was first elected to the Texas Senate in 1962 after serving eight years as a member of the Texas House of Representatives, has been named outstanding disabled veteran for the State of Texas for 1965; and

Whereas, A scroll signifying the high honor accorded Senator Cole will be presented to him by the Disabled American Veterans of Texas, who were responsible for his selection; and

Whereas, This award is but one of many which Senator Cole has received in tribute to his exceptional ability, his tenacity in overcoming the great handicap of blindness, which resulted from his heroic service as a member of the U. S. Marines, when he was wounded by a Japanese hand grenade during a mission on Tarawa; he has been recognized in the field of achievement by the Wrangling Wrecks of Houston, the Blinded Veterans Association, the Texas-Louisiana Chapter of the Association of Physical and Mental Rehabilitation, the Texas Federation of the Blind, the 1960 Annual Outstanding Alumni Award from the University of Houston College of Law, and the Vocational Agricultural Teachers Association of Texas; and

Whereas, This veteran of service in Iceland, New Zealand, Guadalcanal and Tarawa, during World War II, is beloved by his fellow members of the Texas Legislature, and he and his wonderful Seeing-Eye Dog, Toni, are familiar figures in capitol corridors as they make their way, without faltering, to the offices and halls of the Legislature; and

Whereas, It is appropriate that Senator Cole receive the great tribute accorded him by the Disabled American Veterans of Texas before his good friends, his colleagues and associates in the Texas Legislature; now, therefore, be it

Resolved, By the Senate of the State of Texas, That officials of the Disabled American Veterans be invited to attend the session of the Senate of the 59th Legislature on May 20, 1965, at 11:00 A. M., for the ceremony of presentation to Senator Criss Cole of the illuminated scroll naming him the Outstanding Disabled Veteran of the State of

Texas for 1965, and placing him in nomination as the Texas candidate for the national award; and be it further

Resolved, That the Secretary of the Senate be authorized to forward an official copy of this resolution of invitation to Mr. Roy W. Porter, official representative of the Disabled American Veterans, and to Senator Criss Cole.

BATES

LIEUTENANT GOVERNOR

PRESTON SMITH

SPEARS

PATMAN

HALL

COLSON

SNELSON

PARKHOUSE

AIKIN

HERRING

ROGERS

KAZEN

CRUMP

KRUEGER

WORD

HARRINGTON

DIES

RICHTER

HIGHTOWER

BLANCHARD

REAGAN

HAZLEWOOD

STRONG

HARDEMAN

CALHOUN

RATLIFF

CREIGHTON

MOORE

SCHWARTZ

KENNARD

WATSON

The resolution was read and was unanimously adopted.

**Vote on Concurrence in House  
Amendment to Senate Bill  
278 Reconsidered**

On motion of Senator Spears and by unanimous consent the vote by which the Senate concurred in House amendment to S. B. No. 278 was reconsidered.

The Senate then concurred in the House amendment to S. B. No. 278 by the following vote:

Yeas—30

Aikin

Bates

Blanchard

Calhoun

Cole

Colson

Creighton

Crump

Dies	Parkhouse
Hall	Patman
Hardeman	Ratliff
Harrington	Reagan
Hazlewood	Richter
Herring	Rogers
Hightower	Schwartz
Kazen	Snelson
Kennard	Spears
Krueger	Strong
Moore	Word

Absent—Excused

Watson

#### Reports of Standing Committee

Senator Ratliff by unanimous consent submitted the following report:

Austin, Texas,  
May 19, 1965.

Hon. Preston Smith, President of the Senate.

Sir: We, your Committee on Counties, Cities and Towns, to which was referred H. B. No. 126, have had the same under consideration, and I am instructed to report it back to the Senate with the recommendation that it do pass and be printed.

RATLIFF, Chairman.

Senator Moore by unanimous consent submitted the following report:

Austin, Texas,  
May 19, 1965.

Hon. Preston Smith, President of the Senate.

Sir: We, your Committee on Education, to which was referred S. B. No. 575, have had the same under consideration, and I am instructed to report it back to the Senate with the recommendation that it do pass and be printed.

MOORE, Chairman.

#### Senate Bill 575 Ordered Not Printed

On motion of Senator Kennard and by unanimous consent S. B. No. 575 was ordered not printed.

#### Constitutional Amendments Committee Meeting While Senate in Session

On motion of Senator Kazen and by unanimous consent Constitutional Amendments Committee was granted permission to meet while the Senate was in Session.

#### House Bill 37 on Second Reading

On motion of Senator Herring and by unanimous consent, the President laid before the Senate on its second reading and passage to third reading:

H. B. No. 37, A bill to be entitled "An Act relating to methods and procedures for planning, design and construction of State buildings, defining certain terms, providing for applicability of this Act, vesting certain powers and duties in the State Building Commission, repealing certain laws, providing a severability clause, providing for an effective date; and declaring an emergency."

The bill was read second time.

Question—Shall H. B. No. 37 be passed to third reading?

At Ease

On motion of Senator Word and by unanimous consent, the Senate at 3:12 o'clock p.m. agreed to stand At Ease Subject to the Call of the Chair.

#### In Legislative Session

The President Called the Senate to order as In Legislative Session at 3:35 o'clock p.m.

#### Bills and Resolutions Signed

The President signed in the presence of the Senate after the captions had been read, the following enrolled bills and resolutions:

H. C. R. No. 135, Commending M. M. Stripling, Mayor of Nacogdoches, Texas.

H. B. No. 808, A bill to be entitled "An Act to amend Section 1 of House Bill 374, Acts of the 54th Legislature, Regular Session, 1955, Chapter 427, as amended, codified as Article 3883i, Vernon's Civil Statutes of Texas, for the purpose of providing a more reasonable reclassification as to salary authorization of county officials in the present lowest population bracket, and to prevent unreasonable discrimination in growing counties; etc., and declaring an emergency."

H. B. No. 946, A bill to be entitled "An Act ratifying, confirming, approving and validating proceedings and actions had and taken by the governing body of Yellow Horse Canyon

Water Control and Improvement District and the organization and boundaries of said District; etc., and declaring an emergency."

H. B. No. 705, A bill to be entitled "An Act relating to the taking of elk, javelina, deer, and quail in Red River County; amending Sections 4(b), 5, and 6(b), Chapter 217, Acts of the 58th Legislature, 1963; and declaring an emergency."

#### Report of Standing Committee

Senator Kazen by unanimous consent submitted the following report:

May 19, 1965.

Austin, Texas,

Hon. Preston Smith, President of the Senate.

Sir: We, your Committee on Constitutional Amendments, to which was referred H. J. R. No. 25, have had the same under consideration, and I am instructed to report it back to the Senate with the recommendation that it do pass and be printed.

KAZEN, Chairman.

#### House Joint Resolution 25 Ordered Not Printed

On motion of Senator Reagan and by unanimous consent H. J. R. No. 25 was ordered not printed.

#### House Concurrent Resolution 140 on Second Reading

The President laid before the Senate on its second reading the following resolution:

H. C. R. No. 140, Suspending Joint Rules to permit either House to consider H. B. No. 195 at any time.

The resolution was read.

By unanimous consent the resolution was considered immediately and was adopted.

#### House Bills on First Reading

The following bills received from the House were read the first time and referred to the committees indicated:

H. B. No. 35, To the Committee on Jurisprudence.

H. B. No. 840, To the Committee on Water and Conservation.

H. B. No. 980, To the Committee on Counties, Cities and Towns.

H. B. No. 981, To the Committee on Counties, Cities and Towns.

#### Reports of Standing Committees

Senator Creighton by unanimous consent submitted the following report:

Austin, Texas,  
May 19, 1965.

Hon. Preston Smith, President of the Senate.

Sir: We, your Committee on Game and Fish, to which was referred H. B. No. 1014, have had the same under consideration, and we are instructed to report it back to the Senate with the recommendation that it do pass and be printed.

CREIGHTON, Chairman.

Senator Ratliff by unanimous consent submitted the following report:

Austin, Texas,  
May 19, 1965.

Hon. Preston Smith, President of the Senate.

Sir: We, your Committee on Counties, Cities and Towns, to which was referred H. B. No. 651, have had the same under consideration, and we are instructed to report it back to the Senate with the recommendation that it do pass and be printed.

RATLIFF, Chairman.

#### House Bill 1014 Ordered Not Printed

On motion of Senator Crump and by unanimous consent H. B. No. 1014 was ordered not printed.

#### House Concurrent Resolution 136 on Second Reading

The President laid before the Senate on its second reading:

H. C. R. No. 136, Directing the Enrolling Clerk of the House to make certain corrections in H. B. No. 12.

The resolution was read.

Senator Word offered the following amendment to the resolution:

Amend H. C. R. No. 136 by adding at the end thereof a new paragraph to be numbered 13 and to read as follows:

13. At page IV-39 under the Texas

Engineering Extension Service, at the entry reading "Less Estimated Funds from Other Sources" change the amount for the fiscal year ending August 31, 1966, to read \$533,729 and adjust correspondingly the Net General Revenue Appropriation figure for the same year.

The amendment was read and was adopted.

(Senator Blanchard in the Chair.)

Senator Moore offered the following amendment to the resolution:

Amend H. C. R. 136 by adding the following, to be known as paragraph 13:

"13. At page V-51 add the following language to Section 57 which is captioned 'Interpretation of Legislative Intent';

It is specifically provided, however, that none of the moneys appropriated by this Act may be expended to pay the claim of any person against the State unless and until such claim has been pre-audited by the Comptroller of Public Accounts, and no claim shall be approved by the Comptroller for payment from the appropriations made herein except it be for an authorized public purpose for which an appropriation has been made. "Pre-audit" as used in this paragraph shall mean an examination of a claim prior to payment for its legality, validity, accuracy of facts, and availability of appropriation. In such pre-audits of claims properly submitted to him, the Comptroller shall make such individual fact finding as he deems necessary to safeguard the rights of the State and to comply with Legislative intent as evidenced by this paragraph. It is also the intent of the Legislature that State agencies for which appropriations are made by this Act shall assist the Comptroller in such pre-audits by furnishing him with records, information, and other data necessary to audit properly any claim against the appropriations herein made. However, nothing in this paragraph shall be construed to give the Comptroller the right to refuse to pass for payment a legal claim, factually justified, for which a valid appropriation has been made."

(President in the Chair.)

The amendment was read and was adopted.

Senator Hardeman moved adoption of H. C. R. No. 136 as amended.

On motion of Senator Dies and by unanimous consent, further consideration of H. C. R. No. 136 was postponed until Thursday, May 20, 1965, following the conclusion of the Local and Uncontested Bills Calendar.

Question—Shall H. C. R. No. 136 as amended be adopted?

#### Resolutions Signed

The President signed in the presence of the Senate after the caption had been read, the following enrolled resolutions:

S. C. R. No. 6, Requesting the Texas Legislative Council to study plans for a program of assistance for municipalities in construction of arterial streets, etc.

S. C. R. No. 45, Granting permission to William L. Balliew, Jr. and W. L. Balliew, III, to sue the state, etc.

S. C. R. No. 49, Granting permission to Joe B. Wright to bring suit against the State of Texas; etc.

S. C. R. No. 63, Granting permission to Amarillo Speed Bowl, Inc. to sue the State, etc.

S. C. R. No. 66, Granting permission to M & M Racing Association, Inc. and Speedarena, Inc. to sue the State of Texas, etc.

S. C. R. No. 75, Granting permission to John W. Marley & Associates, Inc., to sue the State.

S. C. R. No. 79, Requesting the Texas Legislative Council to make a study of the present and future needs of the facilities for the care of delinquent and dependent and neglected children in Texas and to report to the 60th Legislature the results of its study and its recommendations.

S. C. R. No. 103, In Memory of State Senator Carl C. Hardin, Sr.

#### Conference Committee Report on House Joint Resolution 1

Senator Reagan submitted the following Conference Committee Report on H. J. R. No. 1:

Austin, Texas,  
May 19, 1965.

Hon. Preston Smith, President of the Senate.



Hon. Ben Barnes, Speaker of the House of Representatives.

Sirs: We, your Conference Committee, appointed to adjust the differences between the Senate and the House of Representatives on H. J. R. No. 1, have met and had same under consideration, and beg to report it back with the recommendation that it do pass in the form and text hereto attached.

REAGAN  
HALL  
BATES  
KRUEGER  
RATLIFF

On the part of the Senate.

HALE  
QUILLIAM  
JONES of Taylor  
PEELER  
SMITH

On the part of the House.

H. J. R. No. 1—Proposing an Amendment to the Constitution of the State of Texas to establish the date on which newly elected Members of the Legislature shall qualify and take office.

**BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF TEXAS:**

Section 1. That Article III, Section 3, of the Constitution of Texas, be and the same is hereby amended so as hereafter to read as follows:

"Section 3. The Senators shall be chosen by the qualified electors for the term of four years; but a new Senate shall be chosen after every apportionment, and the Senators elected after each apportionment shall be divided by lot into two classes. The seats of the Senators of the first class shall be vacated at the expiration of the first two years, and those of the second class at the expiration of four years, so that one-half of the Senators shall be chosen biennially thereafter. Senators shall take office following their election, on the day set by law for the convening of the Regular Session of the Legislature, and shall serve thereafter for the full term of years to which elected and until their successors shall have been elected and qualified."

Section 2. That Article III, Section 4, of the Constitution of Texas, be and the same is hereby amended so as hereafter to read as follows:

"Section 4. The Members of the

House of Representatives shall be chosen by the qualified electors for the term of two years. Representatives shall take office following their election on the day set by law for the convening of the Regular Session of the Legislature, and shall serve thereafter for the full term of years to which elected and until their successors shall have been elected and qualified."

Section 3. The foregoing Constitutional Amendment shall be submitted to a vote of the qualified electors of this State, at an election to be held throughout the State on the first Tuesday after the first Monday in November, 1966, at which election all ballots shall have printed thereon the following:

"FOR the Constitutional Amendment establishing the date on which newly elected Members of the Legislature shall qualify and take office."

"AGAINST the Constitutional Amendment establishing the date on which newly elected Members of the Legislature shall qualify and take office."

If it appears from the returns of such election that a majority of the votes cast therein are for such Amendment, same shall become a part of the Constitution of Texas.

Section 4. The Governor of the State of Texas is hereby directed to issue the necessary proclamation for such election and this Amendment shall be published and the election shall be held as required by the Constitution and laws of this State.

The Conference Committee Report was read and was adopted by the following vote:

Yeas—30

Aikin	Kazen
Bates	Kennard
Blanchard	Krueger
Calhoun	Moore
Cole	Parkhouse
Colson	Patman
Creighton	Ratliff
Crump	Reagan
Dies	Richter
Hall	Rogers
Hardeman	Schwartz
Harrington	Snelson
Hazlewood	Spears
Herring	Strong
Hightower	Word

Absent—Excused

Watson

**Notice of Executive Session**

Senator Krueger gave notice that he would on Thursday, May 20, 1965, move for an Executive Session at 11:00 o'clock a.m.

**Reports of Standing Committees**

Senator Creighton by unanimous consent submitted the following report:

Austin, Texas,  
May 19, 1965.

Hon. Preston Smith, President of the Senate.

Sir: We, your Committee on Game and Fish, to which was referred H. B. No. 738, have had the same under consideration, and we are instructed to report it back to the Senate with the recommendation that it do pass and be printed.

CREIGHTON, Chairman.

Senator Patman by unanimous consent submitted the following report:

Austin, Texas,  
May 19, 1965.

Hon. Preston Smith, President of the Senate.

Sir: We, your Committee on State Departments and Institutions, to which was referred H. B. No. 474, have had the same under consideration, and we are instructed to report it back to the Senate with the recommendation that it do pass and be printed, as amended.

PATMAN, Vice-Chairman.

Senator Ratliff by unanimous consent submitted the following report:

Austin, Texas,  
May 19, 1965.

Hon. Preston Smith, President of the Senate.

Sir: We, your Committee on Counties, Cities and Towns, to which was referred S. B. No. 128, have had the same under consideration, and we are instructed to report it back to the Senate with the recommendation that it do pass and be printed.

RATLIFF, Chairman.

Senator Moore by unanimous consent submitted the following report:

Austin, Texas,  
April 21, 1965.

Hon. Preston Smith, President of the Senate.

Sir: We, your Committee on Education, to whom was referred H. B. No. 707, have had the same under consideration, and we are instructed to report it back to the Senate with the recommendation that it do pass and be printed.

MOORE, Chairman.

Senator Ratliff submitted the following report:

Austin, Texas,  
May 19, 1965.

Hon. Preston Smith, President of the Senate.

Sir: We, your Committee on Counties, Cities and Towns, to which was referred S. B. No. 573, have had the same under consideration, and we are instructed to report it back to the Senate with the recommendation that it do pass and be printed.

RATLIFF, Chairman.

**Senate Bill 128 Ordered Not Printed**

On motion of Senator Blanchard and by unanimous consent S. B. No. 128 was ordered not printed.

**Senate Bill 573 Ordered Not Printed**

On motion of Senator Reagan and by unanimous consent S. B. No. 573 was ordered not printed.

**House Bill 37 on Second Reading**

The Senate resumed the consideration of the pending business, same being H. B. No. 37 on its second reading and passage to third reading.

Question—Shall H. B. No. 37 be passed to third reading?

Senator Herring offered the following Committee Amendment to the bill:

Amend Section 8(D)(3)(d) of H. B. No. 37 by deleting the period after the word "expenditure" and adding the following language:

"or refuse same within fifteen (15) days after receiving the request."

The Committee Amendment was read and was adopted.

Senator Herring offered the following Committee Amendment to the bill:

Amend Section 9(C)(6) of H. B. No. 37 by striking out the last sentence thereof.

The Committee Amendment was read and was adopted.

Senator Herring offered the following Committee Amendment to the bill:

Amend H. B. No. 37 by renumbering Subdivision (C) of Section 3 to Subdivision (D) and inserting a new Subdivision (C) to read as follows:

"(C) All projects constructed by and for the Texas Department of Corrections."

The Committee Amendment was read and was adopted.

Senator Herring offered the following amendment to the bill:

Amend Section 7 of House Bill 37 to add the following section:

(D) There is hereby appropriated out of the General Revenue Fund to the State Building Commission for the implementation of the "Building Construction Administration Act" for an Archaeologist the sum of Twelve Thousand Dollars, (\$12,000) each fiscal year, four Project Analysts (not to exceed \$12,000) the sum of Forty Four Thousand Dollars (\$44,000) each fiscal year. Salaries of Classified Positions the sum of One Hundred Thousand Dollars (\$100,000) each fiscal year, Professional Fees and Services Fifteen Thousand Dollars (\$15,000) each fiscal year and unexpended balances of the first year of the biennium, Travel Expenses Fifteen Thousand (\$15,000) each fiscal year and unexpended balances of the first year of the biennium, Other Operating Expenses Fifty Thousand Dollars (\$50,000) each fiscal year and unexpended balances of the first year of the biennium. The combined sum for the biennium from the General Revenue Fund shall be Four Hundred Seventy Two Thousand Dollars (\$472,000).

The amendment was read and was adopted.

Senator Herring offered the following amendment to the bill:

Amend Section 13(B) of H. B. No. 37 by deleting the period at the end of paragraph (B) and adding the following:

"within ten (10) days after the architect/engineer has notified the Commission that the contract has been performed according to the plans and specifications."

The amendment was read and was adopted.

Senator Herring offered the following amendment to the bill:

Amend Sec 12(B) of House Bill 37 so as to read as follows:

On the first working day of the fiscal year beginning September 1, 1965, the sum of Two Hundred Thousand Dollars (\$200,000) shall be transferred from the State Building Fund to the State Building Construction Planning Fund. Such amount is hereby appropriated for the fiscal year beginning September 1, 1965, and ending August 31, 1966. The unexpended balance of such appropriation is hereby reappropriated for the fiscal year beginning September 1, 1966, and ending August 31, 1967. Any interest earned on the assets of said Planning Fund shall thereafter be credited to the account of said Planning Fund.

The amendment was read and was adopted.

On motion of Senator Herring and by unanimous consent the caption was amended to conform to the body of the bill as amended.

The bill as amended was passed to third reading.

#### House Bill 37 on Third Reading

Senator Herring moved that Senate Rule 32 and the Constitutional Rule requiring bills to be read on three several days be suspended and that H. B. No. 37 be placed on its third reading and final passage.

The motion prevailed by the following vote:

Yeas—27

Aikin	Cole
Bates	Colson
Calhoun	Creighton

Crump	Patman
Dies	Ratliff
Hall	Reagan
Hardeman	Richter
Harrington	Rogers
Herring	Schwartz
Hightower	Snelson
Kazen	Spears
Kennard	Strong
Krueger	Word
Parkhouse	

Nays—1

Blanchard

Absent

Hazlewood                  Moore

Absent—Excused

Watson

The President then laid the bill before the Senate on its third reading and final passage.

The bill was read third time and was passed.

## Senate Bill 576 on First Reading

The following local bill was introduced, read first time and referred to the Committee indicated:

By Senator Schwartz:

S. B. No. 576, A bill to be entitled "An Act amending Section 1b of Chapter 501, Acts of the 57th Legislature, Regular Session, 1961, relating to sale of certain land to the city of Texas City to provide for leasing of the land; and declaring an emergency."

To the Committee on Counties, Cities and Towns.

## House Bill 738 Ordered Not Printed

On motion of Senator Patman and by unanimous consent H. B. No. 738 was ordered not printed.

## Senate Bill 577 on First Reading

Senator Snelson moved that Senate Rule 114 and Section 5 of Article III of the State Constitution be suspended to permit his introducing at this time, a bill, the provisions of which he explained.

The motion prevailed by the following vote:

Yeas—30

Aikin	Blanchard
Bates	Calhoun

Cole	Krueger
Colson	Moore
Creighton	Parkhouse
Crump	Patman
Dies	Ratliff
Hall	Reagan
Hardeman	Richter
Harrington	Rogers
Hazlewood	Schwartz
Herring	Snelson
Hightower	Spears
Kazen	Strong
Kennard	Word

Absent—Excused

Watson

The following bill was then introduced, read first time and referred to the committee indicated:

By Senator Snelson:

S. B. No. 577, A bill to be entitled "An Act authorizing any water power control district heretofore or hereafter organized to enter into contracts with any person, firm or corporation for the sale or disposal of salt water for pollution control; authorizing any water power control district to accept works and facilities for pollution control from a non-profit corporation; authorizing any water control district to accept works and facilities for pollution control from a non-profit corporation; authorizing the issuance of revenue bonds without an election for the construction and acquisition of pipe lines, pumps, and facilities necessary for the sale or disposal of salt water for pollution control and providing for the payment and security thereof; authorizing the issuance of refunding bonds; authorizing other provisions relating to the subject; and declaring an emergency."

To the Committee on Counties, Cities and Towns.

## Report of Standing Committee

Senator Hall by unanimous consent submitted the following report:

Austin, Texas,  
May 19, 1965.

Hon Preston Smith, President of the Senate.

Sir: We, your Committee on Transportation, to which was referred H. B. No. 1047, have had the same under consideration, and I am instructed to report it back to the Senate with the recommendation that it do not pass, but that the Committee Substitute

adopted in lieu thereof do pass and be printed.

HALL, Chairman.

C. S. H. B. No. 1047 was read the first time.

Senator Ratliff by unanimous consent submitted the following report:

Austin, Texas,  
May 19, 1965.

Hon. Preston Smith, President of the Senate.

Sir: We, your Committee on Counties, Cities and Towns, to which was referred S. B. No. 576, have had the same under consideration, and I am instructed to report it back to the Senate with the recommendation that it do pass and be printed.

RATLIFF, Chairman.

#### Bill Signed

The President signed in the presence of the Senate after the caption had been read, the following enrolled bill:

S. B. No. 102, A bill to be entitled "An Act to amend Title 25 of the Laws of Texas pertaining to the liability of railroads and other carriers and particularly to amend Article 883 of the Revised Civil Statutes of 1925, as heretofore amended, to provide that the carriers shall not be liable as at common law for loss, damage or injury to goods, wares, and merchandise when transported on rates dependent upon a value declared in writing by the shipper or agreed upon in writing as the released value of the goods when authorized or required by order of the Railroad Commission; etc.; and declaring an emergency."

#### Senate Bill 576 Ordered Not Printed

On motion of Senator Schwartz and by unanimous consent S. B. No. 576 was ordered not printed.

#### Notice of Local and Uncontested Bills Calendar

Senator Hall gave notice that there would be a Session for the consideration of the Local and Uncontested Bills Calendar tomorrow at 9:00 o'clock a.m.

#### Welcome Resolutions

S. R. No. 710—By Senator Herring: Extending welcome to students and

sponsor of the seventh grade social studies from the University Junior High School in Austin.

S. R. No. 711—By Senator Word: Extending welcome to students and Superintendent of the Jonesboro Senior Class from Jonesboro.

S. R. No. 712—By Senator Snelson: Extending welcome to Mr. and Mrs. Dickson Skidmore and son of El Paso.

#### Recess

On motion of Senator Hardeman the Senate at 5:10 o'clock p.m. took recess until 9:00 o'clock a.m. tomorrow.

#### APPENDIX

#### Reports of Standing Committee

Senator Hardeman submitted the following reports:

Austin, Texas,  
May 19, 1965.

Hon. Preston Smith, President of the Senate.

Sir: We, your Committee on Engrossed and Enrolled Bills, to which was referred:

S. B. No. 527, An Act relating to the authority and responsibilities of and the records kept by the State Commission for the Blind; amending Sections 2 and 2a, Chapter 80, General Laws, Acts of the 42nd Legislature, Regular Session, 1931, as amended; amending Section 2, Chapter 216, Acts of the 49th Legislature, 1945, as amended; amending Section 3, Chapter 23, Acts of the 41st Legislature, 1st Called Session, 1929, as amended; amending Section 1, Chapter 241, Acts of the 49th Legislature, 1945; and declaring an emergency.

have carefully compared same and find it correctly enrolled.

HARDEMAN, Chairman.

Austin, Texas,  
May 19, 1965.

Hon. Preston Smith, President of the Senate.

Sir: We, your Committee on Engrossed and Enrolled Bills, to which was referred:

S. B. No. 235, An Act authorizing the Board for Texas State Hospitals and Special Schools or such Board's successor in function to grant such easements and rights-of-way as shall be necessary to construct, improve, renovate, use and operate institutions under its control and management; and declaring an emergency.

have carefully compared same and find it correctly enrolled.

HARDEMAN, Chairman.

Austin, Texas,  
May 19, 1965.

Hon. Preston Smith, President of the Senate.

Sir: We, your Committee on Engrossed and Enrolled Bills, to which was referred:

S. B. No. 82, An Act amending Sections 12 and 14 of the Texas Trust Act to provide that a corporate trustee, executor, administrator or guardian, when authorized by will, trust agreement, other trust instrument, or judicial order, to retain its own capital stock in trust may, when the exercise of rights or the receipt of a stock dividend results in a fractional share holding, purchase an additional fractional share (or shares) to round out the fractional share so acquired into one full share; providing that such purchase, in the circumstances then prevailing, shall be consistent with the judgment and care which men of ordinary prudence exercise in the management of their own affairs; and declaring an emergency.

have carefully compared same and find it correctly enrolled.

HARDEMAN, Chairman.

Austin, Texas,  
May 19, 1965.

Hon. Preston Smith, President of the Senate.

Sir: We, your Committee on Engrossed and Enrolled Bills, to which was referred:

S. B. 102, An Act to amend Title 25 of the laws of Texas pertaining to the liability of railroads and other carriers and particularly to amend Article 883 of the Revised Civil Statutes of 1925, as heretofore amended, to provide that the carriers shall not be liable as at common law for loss, damage or injury to goods, wares and

merchandise when transported on rates dependent upon a value declared in writing by the shipper or agreed upon in writing as the released value of the goods when authorized or required by order of the Railroad Commission; providing that the Railroad Commission of Texas shall have authority to fix and promulgate rates on the transportation of goods, wares and merchandise dependent upon the value declared in writing by the shipper or agreed upon in writing as the declared value of such goods, wares and merchandise; and to repeal all laws and parts of laws in conflict therewith; providing severability; and declaring an emergency.

have carefully compared same and find it correctly enrolled.

HARDEMAN, Chairman.

Austin, Texas,  
May 19, 1965.

Hon. Preston Smith, President of the Senate.

Sir: We, your Committee on Engrossed and Enrolled Bills, to which was referred:

S. B. No. 80, An Act amending Section 36 of the Texas Trust Act, and particularly Subsections A and B thereof, to eliminate overlapping or conflict with the definitions of Section 4 of said Act; permitting trustee's compensation or commissions and attorney's fees to be charged either against principal or income of a trust, or between both; and declaring an emergency.

have carefully compared same and find it correctly enrolled.

HARDEMAN, Chairman.

Austin, Texas,  
May 19, 1965.

Hon. Preston Smith, President of the Senate.

Sir: We, your Committee on Engrossed and Enrolled Bills, to which was referred:

S. B. No. 301, An Act to add to the Insurance Code (Acts of 1951, 52nd Legislature, Chapter 491) a new Article providing that nothing in such Code shall prohibit a life insurance company from guaranteeing to issue individual life insurance policies on other than the term plan without evi-

dence of insurability, and defining "qualified pension or profit-sharing plan"; and declaring an emergency. have carefully compared same and find it correctly enrolled.

HARDEMAN, Chairman.

Sent to Governor

May 19, 1965

S. C. R. No. 6  
S. C. R. No. 45  
S. C. R. No. 49  
S. C. R. No. 63

S. C. R. No. 66  
S. C. R. No. 75  
S. C. R. No. 79  
S. C. R. No. 103  
S. B. No. 80  
S. B. No. 82  
S. B. No. 512  
S. B. No. 459  
S. B. No. 460  
S. B. No. 301  
S. B. No. 235  
S. B. No. 348  
S. B. No. 384  
S. B. No. 527  
S. C. R. No. 102

## In Memory of Rufus Fielding Higgs

Senator Word offered the following resolution:

(Senate Resolution 705)

Whereas, On Sunday, October 11, 1964, our Heavenly Father called from his earthly home, Rufus Fielding Higgs, one of Texas' outstanding citizens and a longtime resident of Erath County; and

Whereas, He gave a lifetime of service to his government, his community and his friends; and

Whereas, He was owner and publisher of the Stephenville Daily Empire and Empire-Tribune; and

Whereas, He was a veteran of World War I, having served from June, 1917 to July, 1919 with the 36th Infantry Division with overseas service in France; and

Whereas, He held a long list of civic and professional honors and associations including membership in the Masonic Lodge, York Rite, Erath County Shrine Club, Knights of Pythias, Veterans of Foreign Wars, Turnbow-Higgs Post 240 of the American Legion and the Stephenville Rotary Club; and

Whereas, He was a charter member and past president of the Rotary Club, a charter member of the Stephenville Lions Club, past commander of Turnbow-Higgs Post of the American Legion, a director of the Stephenville Chamber of Commerce, past president of that body, and sustaining member of the Stephenville Junior Chamber of Commerce; and

Whereas, He was Chairman of the Board of Stewards of the Methodist Church and an active member of the Methodist Men's Club; and

Whereas, He was a member of the Board of Directors of the Stephenville State Bank, having held the distinction of being one of the original organizers of that financial institution; and

Whereas, He was a long and leading exponent of progress over the Central Texas area, and he was currently serving as a director in both the Brazos River Authority and the Texas Good Roads Association and was a member of the Board for State Hospitals and Special Schools; and

Whereas, He was an honorary director of the State Fair of Texas; and

Whereas, He was a member of the Texas Press Association and was honored by that group in 1933 by being elected president and again in 1957 by being selected for the group's plaque for "loyal and unselfish service in the field of journalism"; and

Whereas, He also served as director in the National Editorial Association and was a member of the West Texas Press Association, Sigma Delta Chi, professional journalism fraternity, and the Dallas Press Club; and

Whereas, He was a dedicated Democrat, professing and supporting a belief in a need for party responsibility and he was recognized by the Democratic Party for his efforts by having been elected county chairman for a number of years; and

Whereas, Included in his broad circle of friends were the Honorable Lyndon B. Johnson, President of the United States; the late Honorable Sam Rayburn, Speaker of the House of Representatives, United States Congress; the Honorable John B. Connally, Governor of the State of Texas and Honorable Ralph Yarborough, United States Senator; and

Whereas, He spent much of his time in the upbuilding of his community, city and State; now, therefore, be it

Resolved, That the Senate of Texas does hereby express its deep and abiding sympathy to the members of his family and that copies of this Resolution under the Seal of the Senate be sent to his survivors, namely, his son, Rufus F. (Bud) Higgs, Jr., his granddaughter, Frances Kelly Higgs, his grandson, John Tiner Higgs, all of Stephenville, Texas; his brother, Ralph E. Higgs of Houston, Texas; and his four sisters, Mrs. L. H. Allen and Mrs. Coke Turner, both of Tolar, Texas, Mrs. Lloyd Landers of Granbury, Texas and Mrs. Nina Dunnigan of Fort Worth, Texas; and be it further

Resolved, That a page be set aside in the Senate Journal as a memorial to Rufus Fielding Higgs and that when the Senate adjourns today that it do so in his memory.

WORD  
AIKIN

Signed—Lieutenant Governor Preston Smith; Bates, Blanchard, Calhoun, Cole, Colson, Creighton, Crump, Dies, Hall, Hardeman, Harrington, Hazlewood, Herring, Hightower, Kazen, Kennard, Krueger, Moore, Parkhouse, Patman, Ratliff, Reagan, Richter, Rogers, Schwartz, Snelson, Spears, Strong, Watson.

The resolution was read.

On motion of Senator Aikin and by unanimous consent the names of the Lieutenant Governor and Senators were added to the resolution as signers thereof.

The resolution was then unanimously adopted by a rising vote of the Senate.



In Memory of  
**Billy P. Smith**

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Senator Snelson offered the following resolution:

(Senate Resolution 706)

Whereas, The State of Texas and the City of Midland have lost a beloved and honored citizen in the passing of Billy P. Smith on May 2, 1965; and

Whereas, Billy P. Smith served West Texas as a member of the Texas Highway Patrol for seventeen years, the latter eight as an officer with the rank of sergeant, and established a distinguished record as a public servant in the field of law enforcement; and

Whereas, Sergeant Billy P. Smith's bravery and dedication above and beyond the call of duty is exemplified by a recently awarded Carnegie Bronze Medal for heroism, received for single handedly rescuing the pilot of an aircraft which had crashed and burned while attempting a landing; and

Whereas, He was a native of Eula, Callahan County, Texas, and attended schools there before entering the United States Navy during World War II and participated in the bitter invasion of Okinawa on D-Day-plus-one with a Marine task force; and

Whereas, He is survived by the widow, of Midland; three sons: Jeff Smith, a student at West Texas State University, and Michael and Gregory Smith of Midland; father and mother, Mr. and Mrs. William E. Smith of Eula; a brother, Kelton Smith of Abilene; and

Whereas, It is the desire of the Senate of Texas to recognize the commendable service and contributions of Sergeant Billy P. Smith to his community, his state, and his nation and extend its sympathy to his surviving family and associates; now, therefore, be it

Resolved, by the Senate of the Fifty-Ninth Legislature of the State of Texas, That it does hereby recognize the commendable service and contributions of Sergeant Billy P. Smith to his community, his state, and his nation and extend its sympathy to his surviving family and associates and that copies of this resolution be forwarded to his surviving family by the Secretary of the Senate; and be it further

Resolved, That when the Senate adjourns today, it do so in memory of Billy P. Smith.

The resolution was read and was adopted by a rising vote of the Senate.